Need to know

IASB publishes third edition of the *IFRS for SMEs* Accounting Standard

Contents

This *Need to know* outlines the third edition of the *IFRS for SMEs* Accounting Standard (*IFRS for SMEs* standard), published by the International Accounting Standards Board (IASB) on 27 February 2025.

- The IASB completed its second comprehensive review of the *IFRS for SMEs* standard, resulting in the publication of the third edition of the standard
- The third edition of the standard includes the following major amendments:
  - Section 2 *Concepts and Pervasive Principles* has been revised to align with the 2018 *Conceptual Framework*
  - Section 9 *Consolidated and Separate Financial Statements* has been amended based on the requirements in IFRS 10 *Consolidated Financial Statements*
  - Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* have been amended and combined into a single section renamed Section 11 *Financial Instruments,* which is aligned with IFRS 9 *Financial Instruments*
  - A new Section 12 *Fair Value Measurement* has been added based on the requirements in IFRS 13 *Fair Value Measurement*
  - Section 19 *Business Combinations and Goodwill* has been revised to align with IFRS 3 *Business Combinations* (2008)
  - Section 23 *Revenue* has been renamed *Revenue from Contracts with Customers* and amended to align with IFRS 15 *Revenue from Contracts with Customers*
- Further amendments have been made to other sections of the *IFRS for SMEs* standard to align with recent amendments to IFRS Accounting Standards
- The third edition of the *IFRS for SMEs* standard is effective on 1 January 2027 with early application permitted
- SMEs are required to apply new and amended requirements in the standard retrospectively except for some of the new or amended sections.

For more information please see the following websites:

www.ukaccountingplus.co.uk
www.deloitte.co.uk

Implications for the UK

The *IFRS for SMEs* Accounting Standard is not applicable in the UK. The main UK financial reporting standard, FRS 102, is based on the *IFRS for SMEs* Accounting Standard but with substantial changes to adapt it for use in the UK. Like the *IFRS for SMEs* Accounting Standard, FRS 102 is subject to a periodic review process. In September 2024, the Financial Reporting Council (FRC) published the revised version of FRS 102 as a result of the second triennial review of the standard. A Deloitte ***Need to know*** gives further detail on the amendments to FRS 102.

Background

The IASB maintains the *IFRS for SMEs* standard through periodic review. In 2019, the IASB commenced its second comprehensive review of the standard.

As a result of the review, the IASB proposed amendments to the *IFRS for SMEs* standard in Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* in September 2022. In March 2024, the IASB proposed further amendments to the *IFRS for SMEs* standard in Exposure Draft *Addendum to the Exposure Draft 'Third Edition of the IFRS for SMEs Accounting Standard'.*

After deliberating the comments received in response to the exposure drafts, the IASB has finalised the amendments and issued the third edition of the standard. This publication focuses on the amendments to the standard.

Observation

The IASB discussed the following changes to IFRS Accounting Standards but decided not to align the *IFRS for SMEs* standard with these changes at this time:

- IFRS 14 *Regulatory Deferral Accounts*—the IASB decided not to align the *IFRS for SMEs* standard with IFRS 14 as the project on rate-regulated activities will replace IFRS 14 when it is completed
- IFRS 16 *Leases*—the IASB decided to defer aligning the *IFRS for SMEs* standard with IFRS 16 until the next comprehensive review as the IASB wants to wait for the completion of the post-implementation review of IFRS 16
- cryptocurrency—stakeholders confirmed that SMEs rarely hold cryptocurrencies or sell cryptoassets and, therefore, the IASB will revisit this topic in the next comprehensive review.

Amendments to the *IFRS for SMEs* standard

Revised Section 2 *Concepts and Pervasive Principles*

The IASB revised Section 2 of the standard to align the section with the 2018 version of the *Conceptual Framework*. The main updates to the section include:

- new concepts on measurement, presentation and disclosure
- guidance on derecognition
- updated definitions and recognition criteria for assets and liabilities
- clearer concepts of prudence, stewardship, measurement, uncertainty and substance over form.

The IASB also added an overriding principle that the requirements in other sections of the *IFRS for SMEs* standard take precedence over Section 2 in order to resolve any potential inconsistency between Section 2 and other sections of the standard.

Observation

The IASB decided to retain the concept of 'undue cost or effort' in Section 2. The concept provides the IASB with a tool that helps to balance the costs and benefits of specific requirements in the standard. The concept also gives SMEs a way to make the best use of their resources and get relief from specific requirements. SMEs that use the exemption are required to provide disclosures about how and why it has been applied.

Amendments to Section 9 *Consolidated and Separate Financial Statements*

The IASB amended Section 9 to reflect the requirements in IFRS 10 *Consolidated Financial Statements*. The IASB:

- updated the definition of control to be the same as that in IFRS 10, which uses the definition as the single basis for consolidation (control model)
- introduced requirements for a parent 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 or loss.

The IASB retained the rebuttable presumption in Section 9 that control exists when an investor owns the majority of the voting rights of an investee. The rebuttable presumption simplifies application of the control model.

Observation
The IASB did not introduce the requirement in IFRS 10 for a parent that is an investment entity to measure its investments in subsidiaries at fair value through profit or loss.

Amendments to Section 11 (renamed *Financial Instruments*)
The IASB decided to combine Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* into a single section renamed Section 11 *Financial Instruments*. The fair value measurement and disclosure requirements are now located in the new Section 12 *Fair Value Measurement.*

The IASB decided to align Section 11 to IFRS 9 *Financial Instruments* by:

- adding a principle that supplements the classification and measurement requirements for financial instruments
- adding new disclosure requirements for financial assets and financial liabilities
- adding the definition of a financial guarantee contract and amending the requirements for issued intragroup financial guarantee contracts
- removing the option to apply the recognition and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement.*

Observation
The IASB decided to retain the incurred loss model for the impairment of financial assets measured at amortised cost, and the hedge accounting and derecognition requirements.

New Section 12 *Fair Value Measurement*
The IASB decided to create a new Section 12 based on IFRS 13 *Fair Value Measurement*. In particular, the IASB:

- combined the fair value measurement requirements in other sections into the new section;
- updated the fair value measurement requirements for some aspects of IFRS 13—for example, it:
  - amended the definition of fair value to be the same as that in IFRS 13
  - aligned the requirements on fair value measurement with the principles of the fair value hierarchy in IFRS 13
  - aligned the disclosure requirements relating to fair value with those in IFRS 13.

Revised Section 19 *Business Combinations and Goodwill*
The IASB decided to align Section 19 with IFRS 3 *Business Combinations* (2008). To achieve this objective, the IASB:

- amended the definition of a business to align with the updated definition in IFRS 3
- added requirements explaining that an entity newly formed to effect a business combination may not be the acquirer in the combination
- amended the references to the definitions of asset and liability to reflect those in the revised Section 2
- amended the recognition requirements related to contingent liabilities, clarifying that an acquirer should not recognise a contingent liability that does not meet the definition of a liability
- amended the requirement for contingent consideration to be measured at fair value, if it can be measured reliably without undue cost or effort
- amended the requirement that acquisition costs should be recognised as an expense in profit or loss at the time of the acquisition
- added requirements for acquisitions achieved in stages (step acquisitions).

Revised Section 23 (renamed *Revenue from Contracts with Customers*)
The IASB revised and renamed Section 23 to align with IFRS 15 *Revenue from Contracts with Customers*. In particular, the IASB:

- introduced a comprehensive framework for recognising revenue, based on the five-step model in IFRS 15 which requires an entity to recognise revenue when the customer obtains control of goods or services
- simplified the requirements from IFRS 15 to make the five-step model easier for SMEs to apply
- provided transition relief allowing SMEs to apply their current revenue recognition policy to contracts already in progress at the date of initial application.

Other amendments to the *IFRS for SMEs* standard

The revised *IFRS for SMEs* standard also includes the following amendments:

- clarification of the definition of 'public accountability'
- addition of disclosure requirements about supplier finance arrangements
- addition of a requirement to disclose a reconciliation of changes in liabilities arising from financing activities
- addition of requirements on the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- clarifications that an entity using the measurement simplification for defined benefit obligations in paragraph 28.19 measures the obligation at the current termination amount, assuming all employees are terminated at the reporting date
- alignment of requirements on the timing of recognition of termination benefits with requirements on recognition of restructuring costs in the scope of Section 21 *Provisions and Contingencies*
- addition of requirements for applying consistent approaches to assessing whether a currency is exchangeable into another currency, and to determining the exchange rate to use and the disclosures to provide.

Effective date and transition

The third edition of the *IFRS for SMEs* standard is effective on 1 January 2027. Early application is permitted.

SMEs are required to apply new and amended requirements in the standard retrospectively. However, some relief from retrospective application is available for SMEs applying the new or amended Sections 9, 11, 12, 19 and 23.

Further information

If you have any questions about the revised IFRS for SMEs standard, please speak to your usual Deloitte contact.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. **GAAP in the UK on DART** allows access to the full IFRS Standards and UK GAAP, linking to and from:

- Deloitte's authoritative, up-to-date, GAAP in the UK manuals which provide guidance for reporting under IFRS Standards and UK GAAP
- illustrative financial statements for entities reporting under IFRS Accounting Standards and UK GAAP.

In addition, our **sustainability reporting** volumes of GAAP in the UK provide guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to GAAP in the UK on DART, click **here** to start the application process and select the GAAP in the UK package. For more information about GAAP in the UK on DART, including pricing of the subscription packages, click **here**.

Deloitte.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please click **here** to learn more about our global network of member firms.

© 2025 Deloitte LLP. All rights reserved.

Designed by Deloitte CoRe Creative Services. RITM2041581