

Aligning Section 20 *Leases* of the *IFRS for SMEs Standard* with IFRS 16 *Leases*

Agenda Paper 4B

SME Implementation Group meeting
September 2021

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Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> Standard		
Paper topic	Alignment of Section 20 with IFRS 16—Options to move forward		
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What are the views of SMEIG members on the **possible approaches illustrated in slide 5** to align Section 20 *Leases* of the *IFRS for SMEs* Standard with IFRS 16 *Leases*, in the light of the feedback on the Request for Information summarised in Agenda Paper 4A?

The Request for Information, overall consultation feedback summaries and comment letters can be accessed [here](#).

Background—Applying the alignment principles

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Relevance

Leasing is **widely used** by SMEs and is ranked as their third most important source of financing



Simplicity

- **Single model**
- **Recognition exemptions**—short-term leases and leases of low-value assets
- Exempt from requirement to **separate lease components** from non-lease components
- Simplify the requirements for: measuring **variable lease payments** and optional payments relating to **extension**; determining the **discount rate**; determining and reassessing **term of lease**; subsequent measurement of **lease liability**
- **Retain existing disclosures** for finance leases
- Simplify the **language** in the *IFRS for SMEs* Standard



Faithful representation

Financial statements prepared applying the simplified requirements would faithfully represent an entity's lease assets and liabilities

Possible approaches to move forward

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1

Keep approach discussed in the Request for Information: align to IFRS 16 with simplifications

- Simplifications risk impairing the IFRS 16 model

2

Bring all leases on the balance sheet extending finance lease accounting in the *IFRS for SMEs* Standard to all leases

- Align the main principle (recognise lease assets and lease liabilities for all leases)

3

Improve disclosures for operating leases without changing recognition and measurement requirements

- Balance cost of improved disclosures with reduce benefit from recognising lease assets and lease liabilities

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