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## SME Implementation Group meeting

Date	<b>December 2023</b>
Project	<b>Second Comprehensive Review of the <i>IFRS for SMEs</i><sup>®</sup> Accounting Standard</b>
Topic	<b>Impairment of financial assets—credit risk survey</b>
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This paper has been prepared for discussion at a public meeting of the SME Implementation Group. This paper does not represent the views of the International Accounting Standard Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards or the *IFRS for SMEs*<sup>®</sup> Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose of this meeting

1. This paper seeks views from SME Implementation Group (SMEIG) members on the survey in the appendix to this paper.

## Background

2. At its September 2023 meeting, the International Accounting Standards Board (IASB) discussed the feedback on the proposals in the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (Exposure Draft) for recognising and measuring impairment of financial assets and provided direction to the staff on possible alternatives for addressing that feedback.
3. At that meeting, the IASB tentatively decided that the problem it addressed in introducing the expected credit loss model in IFRS 9 does not meet its principle of relevance to SMEs because the population of entities eligible to apply the *IFRS for SMEs* Accounting Standard that have significant exposure to credit risk is expected to be small. However, IASB members acknowledged that a small sub-group of SMEs, such as non-bank lenders, might have significant exposure to credit risk. The IASB

asked the staff to research alternatives that would seek to recognise expected credit losses for this sub-group of entities.

4. As part of this research, in November 2023, the staff sent a survey to national standard-setters with the aim of determining the extent of entities applying the *IFRS for SMEs* Accounting Standard that could have significant exposure to credit risk. The survey is included as an appendix to this paper.
5. The staff received responses from 15 jurisdictions. However, respondents generally found it difficult to estimate how many SMEs fall into the types of entities that could have significant exposure to credit risk (see Question 3 of the survey). Therefore, evidence from this survey is inconclusive.
6. At this meeting we would like to hear SMEIG members' views on whether it is possible to estimate how many SMEs fall into the types of entities that could have significant exposure to credit risk in your jurisdiction.

#### Questions for the SMEIG

1. Is it possible to estimate how many SMEs fall into the types of entities that could have significant exposure to credit risk in your jurisdiction?
2. To supplement the feedback on the survey, do you have any other suggestions for how we can determine the extent of entities applying the *IFRS for SMEs* Accounting Standard that could have significant exposure to credit risk?

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## Appendix: Credit risk survey

### PART 1—INTRODUCTION

The IASB is undertaking its second comprehensive review of the *IFRS for SMEs* Accounting Standard (the Standard). Information about the second comprehensive review is available [here](#).

This survey seeks to determine the extent of entities applying the Standard that could have significant exposure to credit risk.

In developing the [Exposure Draft Third edition of the IFRS for SMEs Accounting Standard](#), the IASB formed the view that SMEs within the scope of the Standard are unlikely to hold financial assets with significant exposure to credit risk, as they generally hold trade receivables and contractual assets in the scope of Section 23 *Revenue* of the Standard.

Feedback from this survey will inform the IASB's discussions about whether to introduce an expected credit loss impairment model for financial assets.

Your survey responses will be made available to IFRS Foundation staff only. The IFRS Foundation will only use your data in summaries of the survey findings. Neither you nor your jurisdiction will be individually identified in any such material.

If you have any questions about the survey, please contact [SME@ifrs.org](mailto:SME@ifrs.org)

### About the survey

- The survey consists of this introduction, an 'About You' section and three questions.

### PART 2—ABOUT YOU

#### 1.1 Respondent details

1.1(a) Name of respondent:

1.1(b) Email:

1.1(c) Job title:

1.1(d) Organisation:

1.1(e) Your country/jurisdiction (please use this response to determine 'your jurisdiction' for the purposes of responding to the survey):

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## **PART 3—MAIN SURVEY**

### **Question 1—Scope of the *IFRS for SMEs Accounting Standard***

The *IFRS for SMEs Accounting Standard* is intended for use by small and medium-sized entities (SMEs). The Standard defines an ‘SME’ as an entity that:

- a) does not have public accountability; and
- b) publishes general purpose financial statements for external users.

An entity has public accountability if:

- a) 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; or
- b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often would meet this second criterion).

#### **Did your jurisdiction make any modifications to the scope of the *IFRS for SMEs Accounting Standard*?**

- Yes
- No
- Not applicable

If you answered ‘Yes’, please describe the modifications

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### **Question 2—Adoption of the *IFRS for SMEs Accounting Standard***

**Approximately how many entities apply the *IFRS for SMEs Accounting Standard* (or a local modified version of the *IFRS for SMEs Accounting Standard*) in your jurisdiction (if possible, please provide a rough approximation of the number of entities)?**

Please give details \_\_\_\_\_

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### Question 3—Types of SMEs that might have significant exposure to credit risk

‘Credit risk’ is the risk that one party to a financial instrument (the borrower) will cause a financial loss for the other party (the lender) by failing to discharge an obligation (for example, failing to repay a debt). An entity that lends money or otherwise provides credit to other parties is more likely to have significant exposure to credit risk.

Questions 3(a)-(c) aim to identify how many entities applying the *IFRS for SMEs Accounting Standard* have activities that give rise to significant exposure to credit risk.

**Question 3(a) In your jurisdiction, approximately how many entities applying the *IFRS for SMEs Accounting Standard* provide loans to customers or other third parties as a main or primary business activity. An example of such a company is a retail company whose main business is operating supermarkets that extends its operations to include providing loans to its customers (for the purposes of this question, please exclude entities that lend money only to entities within the same group, for example a subsidiary that lends money only to its parent or fellow subsidiaries)?**

- None or only rare cases
- Few entities (more than only rare cases, but less than 5% of all entities applying the Standard)
- Some entities (greater than 5% of all entities applying the Standard)
- No evidence

Please give the approximate number of entities of this type that apply the Standard and any relevant details \_\_\_\_\_

**Question 3(b) In your jurisdiction, approximately how many entities applying the *IFRS for SMEs Accounting Standard* are entities that are lessors and enter into lease agreements as a business activity that gives rise to significant exposure to credit risk (for the purposes of this question, please exclude entities that enter into finance leases with only entities within the same group)?**

- None or only rare cases
- Few entities (more than only rare cases, but less than 5% of all entities applying the Standard)
- Some entities (greater than 5% of all entities applying the Standard)
- No evidence

Please give the approximate number of entities of this type that apply the Standard and any relevant details \_\_\_\_\_

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**Question 3(c)** In your jurisdiction, are there any other entities applying the *IFRS for SMEs Accounting Standard* that might have significant exposure to credit risk (for the purposes of this question, please exclude entities that provide finance to only entities within the same group)?

- None or only rare cases
- Few entities (more than only rare cases, but less than 5% of all entities applying the Standard)
- Some entities (greater than 5% of all entities applying the Standard)
- No evidence

Please give the approximate number of entities of this type that apply the Standard and any relevant details \_\_\_\_\_

### Final page

Thank you very much for completing this survey. Your answers will inform the IASB's decisions in the second comprehensive review of the *IFRS for SMEs Accounting Standard*.