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## SME Implementation Group

Date **5 December 2023**

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This document summarises a meeting of the SME Implementation Group.

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## SME Implementation Group members who attended the meeting

Region	Members
Africa	Blaise Colyvas
Africa	Mike Mbaya
Africa	Ernest Muriu
Africa	Peter Mwambuja
Africa	Ayodele Ojo
Africa	Kwabena Situ
Asia-Oceania	Qi Chang
Asia-Oceania	Fridrich Housa
Asia-Oceania	Pramod Jain
Asia-Oceania	Eng Kian Lee
Asia-Oceania	Saifullah
Asia-Oceania	Lei Yan
Europe	Jenny Carter
Europe	Elaine Conway
Europe	Úna Curtis
Europe	José M. Hinojal
Europe	Eva Sundberg
The Americas	Nancy Aragón Granja
The Americas	Wilfred Au
The Americas	Omar Alberto Benítez Aníbal

Region	Members
The Americas	Gabriel Gaitán León
The Americas	Martin Nazzarro
The Americas	Andrea St Rose
The Americas	Edson Teixeira
Others	Hironori Okada
Observer	Karen Sanderson

## Purpose of this meeting

1. This document summarises the virtual SME Implementation Group (SMEIG) meeting held on 5 December 2023, chaired by Jianqiao Lu, International Accounting Standards Board (IASB) member and Chair of the SMEIG. More information about the SMEIG can be found on the [IFRS Foundation's website](#).
2. The SMEIG provided advice to the IASB on:
  - (a) revenue from contracts with customers;
  - (b) addendum to the Exposure Draft *Third Edition of the IFRS for SMEs Accounting Standard* (Exposure Draft); and
  - (c) impairment of financial assets.
3. The agenda papers for the meeting are available on the [IFRS Foundation's website](#). In this meeting summary, 'SMEs' refers to entities that are eligible to apply the *IFRS for SMEs Accounting Standard* (the Standard).

## Revenue from contracts with customers

4. SMEIG members discussed the staff suggestions to change, retain and remove requirements proposed in the Exposure Draft. The IASB will consider these suggestions in finalising the revised Section 23 *Revenue from contracts with customers* of the *IFRS for SMEs Accounting Standard*.

## Changing requirements

5. SMEIG members were asked for their views on the staff suggestions to change the requirements proposed in the Exposure Draft for:
  - (a) contract modifications;
  - (b) warranties;
  - (c) customer options for additional goods or services; and
  - (d) disclosure of disaggregated revenue.

6. SMEIG members generally agreed with the staff suggestions to change the requirements proposed for these topics in the Exposure Draft.
7. Some SMEIG members disagreed with the staff suggestion to remove the option for SMEs to account for a contract modification as a separate contract. These SMEIG members agreed with SMEs having flexibility in how to account for contract modifications.
8. Two SMEIG members disagreed with the staff suggestion to require SMEs to account for a warranty as a separate promise only if the customer has the option to purchase the warranty separately. Both members said this could lead to SMEs inappropriately recognising revenue in some instances.
9. One SMEIG member disagreed with the staff suggestion not to extend the scope of the undue cost or effort exemption from accounting for a customer option as a separate promise to customer renewal options. The SMEIG member said the exemption would be necessary for SMEs that have no systems to record information about customer renewals because they are not fundamental to the SMEs' business.
10. Two SMEIG members disagreed with the staff suggestion to require SMEs to disaggregate their revenue into categories chosen from a list of types of categories in Section 23. These SMEIG members had concerns about the costs associated with the suggested requirement. Some SMEIG members suggested ways to improve the requirement, including:
  - (a) specifying how SMEs should choose the type of category to use to disaggregate revenue;
  - (b) adding types of categories to the list in Section 23; and
  - (c) specifying that SMEs would be permitted to disaggregate their revenue into more than one type of category.
11. SMEIG members were also asked for their views on the staff suggestions to make drafting changes to the requirements proposed in the Exposure Draft for non-cash consideration and allocating variable consideration. SMEIG members generally agreed with the staff suggestions.

### Retaining requirements

12. SMEIG members were asked for their views on the staff suggestions to retain the requirements proposed in the Exposure Draft for:
  - (a) variable consideration;
  - (b) contract balances; and
  - (c) repurchase agreements.
13. SMEIG members generally agreed with the staff suggestions to retain the requirements for variable consideration and contract balances. However, SMEIG members had mixed views about the staff suggestion to include no requirements for accounting for repurchase agreements in the *IFRS for SMEs* Accounting Standard. SMEIG members who agreed with including the requirements in the Standard said SMEs in their jurisdiction enter into repurchase agreements.

### Removing requirements

14. SMEIG members were asked for their views on the staff suggestion to include no requirements for accounting for breakage in the *IFRS for SMEs* Accounting Standard. Some SMEIG members agreed with the staff suggestion.
15. Other SMEIG members disagreed with the suggestion and recommended including requirements for accounting for breakage in the *IFRS for SMEs* Accounting Standard. These members said SMEs need requirements that set out when to recognise breakage amounts as revenue.

## Section length and structure

16. SMEIG members were asked for their views on the staff suggestion to restructure the proposed revised Section 23 of the *IFRS for SMEs* Accounting Standard, so that:
  - (a) mandatory requirements are split between Section 23 and an appendix to Section 23; and
  - (b) non-mandatory guidance is included in educational material on Section 23.
17. SMEIG members generally agreed with the staff suggestion.
18. Some SMEIG members raised concerns about the staff suggestions:
  - (a) to include requirements on principal versus agent consideration in an appendix to Section 23 of the *IFRS for SMEs* Accounting Standard, rather than in Section 23; and
  - (b) to include the examples of factors that indicate a good or service is not distinct in educational material, rather than in an appendix to Section 23 of the *IFRS for SMEs* Accounting Standard. In the view of one SMEIG member, the examples should be in the Standard because SMEs would need the examples to apply the requirements proposed in the Exposure Draft.

## Addendum to the Exposure Draft Third Edition of the *IFRS for SMEs* Accounting Standard

19. SMEIG members were asked for their views on the staff suggestions on how to align the *IFRS for SMEs* Accounting Standard with the recent amendments to full IFRS Accounting Standards for:
  - (a) supplier finance arrangements; and
  - (b) lack of exchangeability.
20. A few SMEIG members agreed with the staff proposal. One SMEIG member commented on the status of similar proposals in their national GAAP. Another SMEIG member said users of SMEs' financial statements might benefit from additional disclosure requirements to help users understand how SMEs are currently presenting cash flows associated with supplier finance arrangements.

## Impairment of financial assets

21. SMEIG members were asked for their views on estimating how many SMEs are the types of entities that could have significant exposure to credit risk in their jurisdictions. SMEIG members were also asked to provide suggestions on how the staff could determine how many entities applying the *IFRS for SMEs* Accounting Standard could have significant exposure to credit risk.
22. Some SMEIG members said it was difficult to obtain data to estimate how many SMEs are the types of entities that could have significant exposure to credit risk in their jurisdiction. Some SMEIG members said:
  - (a) entities that have significant exposure to credit risk, such as non-bank lenders, generally apply full IFRS Accounting Standards.
  - (b) some SMEs, such as micro lenders and those involved in leasing, might have significant exposure to credit risk. These SMEs might apply the *IFRS for SMEs* Accounting Standard or local GAAP.
23. Some SMEIG members said that they will consider how to gather data from their jurisdiction on the number of SMEs that could have significant exposure to credit risk.