IFRS® Accounting

Staff paper

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Date	**January 2024**
Project	**Second Comprehensive Review of the *IFRS for SMEs*® Accounting Standard**
Topic	**Impairment of financial assets**
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Purpose of the paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to:

   (a) consider feedback on the proposals for impairment of financial assets in Section 11 *Basic Financial Instruments* (proposed to be renamed *Financial Instruments*) of the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft); and

   (b) decide whether to make any changes to these proposals.

2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

Staff recommendation

3. The staff recommend the IASB:

   (a) retains the incurred loss model for impairment of financial assets for SMEs that do not provide financing to customers as one of its primary businesses; and

(b) requires SMEs that provide financing to customers as one of its primary businesses to apply an expected credit loss model for impairment of financial assets, which is aligned with the simplified approach in IFRS 9 *Financial Instruments*.

Structure of this paper

4. This paper is structured as follows:

   (a) background (paragraphs 5–20);

   (b) research (paragraphs 21–28); and

   (c) staff analysis including the staff recommendations and the questions for the IASB (paragraphs 29–67).

Background

5. This section summarises the:

   (a) requirements for the impairment of financial assets in the Standard (paragraph 6);

   (b) development of the proposals in the Exposure Draft (paragraphs 7–10);

   (c) proposals in the Exposure Draft (paragraphs 11–12);

   (d) feedback on the proposals (paragraphs 13–14); and

   (e) relevance to SMEs (paragraphs 15–20).

Requirements for the impairment of financial assets in the Standard

6. Section 11 of the Standard sets out the requirements for recognising and measuring impairment of financial assets measured at cost or amortised cost. The requirements are based on IAS 39 *Financial Instruments: Recognition and Measurement*. The impairment model in Section 11 and IAS 39 is an incurred loss model.

Development of the proposals in the Exposure Draft

7. The IASB discussed aligning the requirements for impairment of financial assets in the Standard with IFRS 9 during its development of the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* (Request for Information). During its discussions, the IASB noted that the scope of the Standard excludes any entity that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Consequently, most banks, credit unions, insurance companies, securities brokers, securities dealers, mutual funds and investment banks satisfy this criterion and are unable to apply the Standard. Therefore, the IASB's initial view was that the general approach to impairment in IFRS 9 would not be relevant to many entities applying the Standard.[1]

8. IFRS 9 includes a simplified approach which requires lifetime expected credit losses to be recognised on trade receivables, contract assets and lease receivables. The approach requires the loss allowance to be measured at an amount equal to lifetime expected credit losses. The approach also removes the need to track separately increases in credit risk.

9. In January 2020, the IASB published the Request for Information which asked for views on introducing the simplified approach in IFRS 9 into the Standard to replace the incurred loss model.[2] Feedback on the Request for Information was that the simplified approach in IFRS 9 was too complex for SMEs and further simplification was needed.

10. Feedback from interviews with global preparers indicated that implementing the simplified approach in IFRS 9 would be complex for SMEs and may not result in significant changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables. Feedback from a survey and interviews with users of SMEs' financial statements did not show a demand for more

[1] See paragraph B35 of the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard*

[2] See paragraph B36–B37 of the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard*

sophisticated information that would be provided by applying an expected credit losses model to financial assets held by SMEs.[3]

Proposals in the Exposure Draft

11. Based on the feedback on the Request for Information, outreach meetings and the advice of the SMEIG, the IASB was of the view that:[4]

    (a) an expected credit loss (ECL) model would provide better information for users of financial statements when SMEs hold longer term financial assets; but

    (b) retaining an incurred loss model would balance the costs to SMEs that hold trade receivables, which are normally short-term, non-interest-bearing assets, with the benefits of an ECL model to users of financial statements.

12. In the Exposure Draft, the IASB proposed to:

    (a) retain the incurred loss model for trade receivables and contract assets in the scope of the proposed revised Section 23 *Revenue from Contracts with Customers*;

    (b) require an ECL model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and

    (c) retain the requirements in Section 11 for impairment of equity instruments measured at cost.

Feedback on the proposals [5]

13. Most respondents to the Exposure Draft disagreed with the proposal to introduce an ECL model for some financial assets for cost-benefit reasons and suggested the incurred loss model is retained for all financial assets measured at amortised cost.

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[3] Paragraphs BC74–BC75 of the Basis of Conclusions on the Exposure Draft

[4] Paragraph BC77 of the Basis of Conclusions on the Exposure Draft

[5] A more detailed summary is presented in paragraphs 6–16 of Agenda Paper 30F *Impairment of financial assets* of the September 2023 IASB meeting.

14. Respondents that disagreed with the proposed ECL model provided the following reasons for their view:

    (a) the existence of two impairment models would lead to complexity and confusion for SMEs and users of their financial statements and does not meet the simplicity principle.

    (b) the types of financial assets measured at amortised cost that are held by SMEs are generally straightforward (other than short-term and non-interest-bearing financial instruments such as trade receivables, SMEs might have intragroup and employee receivables) and the benefits of applying the ECL model may not outweigh the costs and practical difficulties for those financial assets.

    (c) many SMEs do not have resources to apply an ECL model properly, which would reduce the usefulness of the information.

    (d) the incurred loss model is sufficient to meet the needs of the users of SMEs' financial statements.

Relevance to SMEs

15. The alignment approach treats alignment with full IFRS Accounting Standards as the starting point for developing the *IFRS for SMEs* Accounting Standard, and applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place.

16. The IASB determines relevance to SMEs by assessing whether the problem addressed by a new requirement in full IFRS Accounting Standards would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Accounting Standard (see paragraph BC30 of the Basis for Conclusions on the Exposure Draft).

17. The IASB developed the ECL model in IFRS 9 predominately to respond to concerns identified during the financial crisis about delayed recognition of credit losses on

financial assets, particularly long-term loan receivables. Concerns were raised about the timeliness of recognising credit losses because the incurred loss model may delay the recognition of credit losses until there is evidence of a trigger event.

18. When developing IFRS 9, the IASB also had the aim for entities to apply a single impairment method to all financial assets not measured at fair value, replacing the different impairment methods for the classification categories in IAS 39. Section 11 of the Standard does not have different impairment models and classification categories as did IAS 39.

19. At the September 2023 IASB meeting, the staff asked the IASB to discuss whether the ECL model satisfies the 'relevance to SMEs' principle of alignment. The IASB was split on whether the principle is met. However, most IASB members were of the opinion that:

    (a) the population of SMEs that has significant exposure to credit risk is small, and for the vast majority of SMEs the problem addressed by the ECL model in IFRS 9 would be unlikely to make a significant difference in the decisions of users of their financial statements; and

    (b) a small population of SMEs, such as non-bank lenders, might have significant exposure to credit risk.

20. At its September 2023 meeting, the IASB asked the staff to research alternatives that would recognise expected credit losses for the small population of SMEs that might have significant exposure to credit risk.

Research

National standard-setters survey

21. In November 2023, the staff sent a survey to national standard-setters with the aim of determining the extent of entities applying the Standard that could have significant exposure to credit risk.

22. The staff received responses from national standard-setters in 15 jurisdictions. Some respondents said that there are SMEs that have significant exposure to credit risk in their jurisdiction. However, the respondents generally found it difficult to estimate how many SMEs are the types of entities that could have significant exposure to credit risk. Most of these respondents said there is limited information or insufficient evidence to support making an estimation.

Feedback from the SMEIG

23. At its December 2023 meeting, SMEIG members were asked their views on estimating how many SMEs are the types of entities that could have significant exposure to credit risk.

24. 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; and

    (b) there are SMEs that might have significant exposure to credit risk such as micro lenders or those involved in leasing that apply the *IFRS for SMEs* Accounting Standard or local GAAP.

Feedback on future development of UK and Ireland GAAP

25. The staff has considered feedback on the Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRED 82) issued by the UK Financial Reporting Council (FRC). FRS 102 is based on the *IFRS for SMEs* Accounting Standard, but with some significant amendments made for application in the UK and Republic of Ireland. The scope of FRS 102 is different to the scope of the *IFRS for SMEs* Accounting Standard, as FRS 102 can be

applied by entities with public accountability. For example, FRS 102 can be applied by building societies, credit unions and some other financial institutions.

26. The FRC is currently undertaking a comprehensive review of FRS 102. The FRC is proposing to defer its conclusion on whether to align FRS 102 with the ECL model in IFRS 9 pending the issue of the IASB's third edition of the *IFRS for SMEs* Accounting Standard but sought views in FRED 82 on how to define the scope of which entities should apply an ECL model. The FRC's preliminary view is that it may be appropriate to define the scope of entities that apply an ECL model based on an entity's activities (such as entering into regulated or unregulated credit agreements as lender, or finance leases as lessor), or on whether the entity meets the definition of a public interest entity.

27. Most of the feedback from comment letters in response to FRED 82 agreed with the FRC's proposal to defer alignment of FRS 102 with the ECL model in IFRS 9. A few comment letter respondents said the ECL model is complex and the costs will outweigh the benefits for the population of entities that apply FRS 102.

28. In addition, most comment letter respondents agreed with the FRC's preliminary view that it may be appropriate to define the scope of entities that apply an ECL model for cost-benefit reasons. The respondents said that for most entities that apply FRS 102, applying the ECL model will be onerous. However, there are some entities such as building societies and providers of debt, where the benefits of applying the ECL model could outweigh the costs.

Staff analysis

29. The staff analysis is set out as follows:

    (a) relevance to SMEs (paragraphs 30–35);

    (b) scope of SMEs that should apply an ECL model (paragraphs 36–45);

    (c) impairment model for SMEs (paragraphs 46–47)

(d) impairment model for SMEs that *do not* provide financing to customers as one of its primary businesses (paragraphs 48–53); and

(e) impairment model for SMEs that provide financing to customers as one of its primary businesses (paragraphs 54–67).

Relevance to SMEs

30. Feedback from the survey to national standard-setters (see paragraph 22 of this paper) and discussion with SMEIG members indicates that there is a small population of SMEs that has significant exposure to credit risk. This assessment is based on the local knowledge of the national standard-setters or SMEIG members and generally not supported by data. The staff think that the lack of data is due to SMEs not being subject to the same level of regulation as listed entities in most jurisdictions. This makes obtaining reliable data about SMEs difficult.

31. The staff think the qualitative evidence supports that there is a small population of SMEs with significant exposure to credit risk. For example, non-bank lenders such as non-deposit-taking microfinance institutions.

Application of the 'relevance' principle to a small population of SMEs

32. The staff think the IASB's assessment of the relevance principle may differ, depending on the outcome of aligning or not aligning with full IFRS Accounting Standards. The IASB may decide the relevance principle is satisfied if:

(a) the problem addressed by the requirement is relevant to *many* SMEs; or

(b) the problem addressed by the requirement is relevant to a small population of SMEs but for those SMEs the consequences of alignment could be significant.

33. To illustrate the staff thinking, we have reviewed some of the IASB's recent decisions and tentative decisions when the requirements in full IFRS Accounting Standards were assessed as being relevant only to a small population of SMEs:

(a) The IASB has amended the Standard to align with the amendment to IAS 12 *Income Taxes* for the Pillar Two model rule—namely a temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the global tax rules. The IASB decided that SMEs affected by the Pillar Two model rules should be given similar relief that is available in full IFRS Accounting Standards. In this instance the IASB received feedback that the Pillar Two model rules could have a material effect on the financial statements of a small population of SMEs, particularly some subsidiaries of large multinational groups.

(b) The IASB has tentatively decided not to amend Section 9 *Consolidated and Separate Financial Statements* of the Standard to include requirements for investment entities because few SMEs would meet the definition of an investment entity. This small population of SMEs could provide fair value information to the users of the financial statements or apply full IFRS Accounting Standards.[6]

(c) The IASB has tentatively decided to align the Standard with *Lack of Exchangeability* (Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*). Circumstances in which a currency is not exchangeable may arise infrequently. However, when the circumstances do arise, many entities in the related jurisdiction will be affected, including SMEs.[7]

(d) In developing the Exposure Draft, the IASB did not include requirements on accounting for advance payments in revised Section 23 of the Exposure Draft when considering alignment with IFRS 15 *Revenue from Contracts with Customers*. This is because the IASB considered that the requirements did not meet the relevance principle because advance payments are used by a small population of SMEs.[8]

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[6] See Agenda paper 30B *Investment entities* of the December 2023 IASB meeting and IASB Update.

[7] See Agenda paper 30E *Recent amendments to full IFRS Accounting Standards* of the October 2023 IASB meeting and IASB Update.

[8] See Agenda paper 30B *Simplifications to IFRS 15* of the February 2022 IASB meeting and IASB Update.

34. The staff note that when the IASB decides to amend the Standard by adding or changing a requirement for a problem that is relevant to a small population of SMEs, this does not necessarily add complexity for *all* SMEs. This is because application of the new or amended requirement would be limited to those SMEs to which the problem is relevant. Other SMEs would only need to assess that the requirement does not apply to them.

Staff conclusion on relevance to SMEs

35. Qualitative evidence indicates that the ECL model is relevant to a small population of SMEs that has significant exposure to credit risk. The consequences of not including an ECL model for this population of SMEs would be significant because the SMEs would apply the incurred loss model of impairment to financial assets which may result in the late recognition of credit losses. An ECL model would improve the information for users of the SMEs' financial statements due to the timely recognition of credit losses.

Scope of SMEs that should apply an ECL model

36. Most stakeholders disagreed with the proposals in the Exposure Draft to introduce an ECL model. Comment letter respondents said that the benefits of introducing the proposed ECL model, are unlikely to outweigh the costs of applying the model for most SMEs.

37. The scope of the proposed ECL model in the Exposure Draft is based on the type of financial asset (see paragraph 12 of this paper). The staff think that the scope of SMEs that should apply the ECL model should be based on an SMEs' activities rather than type of assets. This approach would ensure:

   (a) the ECL model is applied only by the small population of SMEs that the IASB has decided the problem is relevant to (that is, SMEs that have significant exposure to credit risk); and

   (b) SMEs apply one impairment model to all their financial assets.

38. This approach would therefore respond to the feedback on the Exposure Draft that two impairment models for financial assets would lead to complexity and confusion for SMEs and users of their financial statements.

Defining the population of SMEs that has significant exposure to credit risk

39. Introducing an ECL model for the small population of SMEs that has significant exposure to credit risk requires the population to be defined. The staff have identified two descriptions, based on suggestions from SMEIG members, that could be used to define the population of SMEs:

    (a) SMEs that provide financing to customers[9] as a main business activity (this uses terminology from the forthcoming IFRS Accounting Standard *Presentation and Disclosure in Financial Statements*); or

    (b) SMEs that provide financing to customers as one of its primary businesses.

40. The description 'one of its primary businesses' is used in paragraph 1.3 of the Standard, which explains when an entity has public accountability for the purposes of defining the scope of SMEs. Therefore, this is not a new concept. However, the staff note that the description 'provides financing to customers' is not used in the Standard.

41. To help SMEs determine if they are required to apply the ECL model we think additional guidance will be needed. The staff think the IASB should include a description of the term 'provides financing to customers' in the Standard. There is guidance in the educational module supporting the Section 1 *Small and Medium-sized Entities* of the Standard, on when an entity is publicly accountable (including when operations are incidental to an entity's primary business). Similar guidance could help SMEs determine if providing financing to customers is one of its primary businesses.

42. Furthermore, at the June 2023 IASB meeting the IASB discussed suggestions made by respondents to provide additional examples to assist application of the concept of

[9] Customer is defined, in the Glossary of the Exposure Draft, as a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

public accountability and tentatively decided to consider these suggestions when updating the educational modules.[10] The staff think we should consider how to improve the guidance in the educational modules on Section 1 and Section 11 of the Standard to provide examples to help SMEs determine if they are required to apply the ECL model.

43. SMEs would need to decide whether they are required to apply the ECL model, which might be perceived as adding complexity to the Standard. However, the staff think the decision would be straightforward because of SMEs' knowledge of their business activities.

Staff conclusion

44. The staff think that the description in paragraph 39(b) of this paper is appropriate to define the population of SMEs that has significant exposure to credit risk. This is because this definition uses similar wording to paragraph 1.3 of the Standard which defines the scope of the Standard and SMEs should already be familiar with.

Staff recommendation and questions for the IASB

45. The staff recommend the IASB requires SMEs that provide financing to customers as one of its primary businesses to apply an ECL model.

Questions for the IASB
1. Does the IASB agree there is a small population of SMEs with significant exposure to credit risk and therefore for this population the relevance principle is met? 2. Does the IASB agree with the description of that population of SMEs in paragraph 39(b) of this paper? 3. Does the IASB agree that the described population should be required to apply an ECL model?

[10] See Agenda paper 30D *Definition of public accountability* of the June 2023 IASB meeting and IASB Update.

Impairment model for SMEs

46. The next section of this paper assumes that the IASB agrees with the staff recommendation in paragraph 45 of this paper.

47. The analysis on the impairment model is set out as follows:

    (a) impairment model for SMEs that *do not* provide financing to customers as one of its primary businesses (paragraph 48–53); and

    (b) impairment model for SMEs that provide financing to customers as one of its primary businesses (paragraphs 54–67).

Impairment model for SMEs that do not *provide financing to customers as one of its primary businesses*

48. Generally, feedback obtained during this comprehensive review was not supportive of introducing an ECL model for SMEs because the costs would outweigh the benefits for most SMEs. Feedback from users of SMEs' financial statements did not show a demand for more sophisticated information from an ECL model. Feedback from preparers indicated that implementing a simplified approach would be complex for SMEs and would not result in significant changes in the amount of impairment for the types of financial assets held by typical SMEs.

49. The staff think that SMEs that *do not* provide financing to customers as one of its primary businesses would generally not have significant exposure to credit risk due to the types of financial assets held, which are predominately short-term receivables. As discussed in paragraph 48 of this paper, an ECL model would not significantly change the outcome of the impairment amount for this group of SMEs. Consequently, the staff think that the ECL model is not relevant and would add unnecessary complexity for these SMEs. The staff think that retaining the incurred loss model for this group of SMEs is an appropriate application of the simplification principle.

50. The staff think applying an incurred loss model will provide information that faithfully represents these SMEs' financial assets because of the type of financial assets held, which are generally short-term and non-interest-bearing.

51. The staff note if the IASB retains the incurred loss model for this group of SMEs, in the instances that the SMEs have any long-term financial assets such as long-term intercompany receivables, an incurred loss model of impairment would apply to those financial assets. In addition to paragraph 11.42 of the Standard, the staff think that the principles of materiality and aggregation/disaggregation on presentation in paragraph 3.15A and 3.16 of the Exposure Draft will improve the disaggregation of such financial assets and information to the users of SMEs' financial statements. [11]

Staff conclusion

52. Based on the analysis, the staff think SMEs that do not provide financing to customers as one of its primary businesses should apply an incurred loss model to all financial assets measured at amortised cost (that is, the current incurred loss requirements in the Standard should be retained for these SMEs).

Staff recommendation and question for the IASB

53. The staff recommend the IASB retains the incurred loss model for impairment of financial assets for SMEs that do not provide financing to customers as one of its primary businesses.

Question for the IASB
4. Does the IASB agree with the staff recommendation in paragraph 53 of this paper?

[11] Paragraph 11.42 of the Exposure Draft requires an SME to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Impairment model for SMEs that provide financing to customers as one of its primary businesses

54. Following the IASB's discussion at its September 2023 meeting (see paragraph 19–20 of this paper) the staff have considered two approaches that would recognise expected credit losses:

    (a) Approach 1—applying the general approach to ECL (paragraphs 55–62); and

    (b) Approach 2—applying the simplified approach to ECL (paragraphs 63–67).

Approach 1—applying the general approach to ECL

55. To assess whether the general approach or the simplified approach to impairment should be applied by SMEs that provide financing to customers as one of its primary businesses, the alignment principles (see paragraph 15 of this paper) of simplicity and faithful representation have been applied.

56. Applying the principle of simplicity involves looking at the new requirements in the IFRS Accounting Standards that have satisfied the relevance principle and then assessing what simplifications are appropriate. This includes simplifying the recognition and measurement requirements.[12]

57. The general approach to ECL requires an entity to:

    (a) measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition; and

    (b) measure the loss allowance for a financial instrument at an amount equal to 12-month expected credit losses if the credit risk on that financial instrument has not increased significantly since initial recognition.[13]

[12] Paragraph B31 of the Basis of Conclusions on the Exposure Draft

[13] Paragraphs 5.5.3 and 5.55 of IFRS 9

58. IFRS 9 requires an entity to determine the significant increases in credit risk of the financial assets, calculate 12-month expected credit losses and track increases in credit risk which involves complexity.

59. In assessing the simplicity principle, the staff think that the general approach to ECL could be complex for SMEs that provide financing to customers as one of its primary businesses because the SMEs would need to track significant increases in credit risk, which involves estimation and judgement. The staff think the costs of tracking credit risk for SMEs (such as acquiring systems to track credit risk) would outweigh the benefits to users.

60. The staff acknowledge that these SMEs have significant exposure to credit risk, however, the objective of the IASB is to keep the Standard simple for SMEs.

61. The staff think that if the general approach to ECL is required for the population of SMEs that provide financing to customers as one of its primary businesses, the requirements of IFRS 9 should be included in the Standard as a 'fallback' requirement. That is, the IFRS 9 requirements would not be incorporated into the Standard and SMEs would instead refer to the impairment requirements in IFRS 9 (this would be a fallback to the impairment requirements in IFRS 9, not a fallback to IFRS 9 in its entirety). This is because the guidance in IFRS 9 supporting application of the general model is lengthy, and the guidance will only be relevant to this small population of SMEs.

62. At its October 2021 meeting, the IASB decided to remove an entity's option to apply the recognition and measurement requirements for financial instruments in full IFRS Accounting Standards (that is, remove the fallback to IAS 39 without replacing it with a fallback to IFRS 9).[14] The decision was conditional on the IASB's consideration of

[14] See Agenda paper 30A Towards and Exposure Draft–IFRS 9 *Financial Instruments* ('fallback' to full IFRS recognition and measurement requirements) of the October 2021 meeting and IASB Update.

the alignment of Section 11 and 12 of the Standard with IFRS 9 during this comprehensive review.[15]

Approach 2—applying the simplified approach to ECL for all financial assets

63. The staff think that the simplified approach (see paragraph 8 of this paper) to ECL would be an appropriate simplification for SMEs. This is because the simplified approach will limit complexity for SMEs to track separately significant increases in credit losses and result in more timely recognition of credit losses.

64. The IASB has exposed the simplified approach for SMEs in the Exposure Draft, albeit with a different scope (type of assets, not entities based on their activities)

65. The staff acknowledge that Approach 2 would result in ECL only being recognised by SMEs for possible default events over the expected lifetime of their financial assets, instead of also recognising the portion of ECL that results from default events that are possible within 12 months after the reporting date. The IASB's main objective in developing the impairment model was to provide users of financial statements with more useful information about an entity's expected credit losses on its financial assets and its commitment to extend credit to facilitate their assessment of the amount, timing and uncertainty of cash flows.[16] The staff think that Approach 2 achieves an outcome that provides more useful information to the users of SMEs' financial statements.

Staff conclusion

66. The staff think that introducing the simplified approach to ECL for the small population of SMEs that provide financing to customers as one of its primary businesses would result in an appropriate balance of costs and benefits, while being

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[15] See paragraph 27 of Agenda paper 30A Towards and Exposure Draft–IFRS 9 *Financial Instruments* ('fallback' to full IFRS recognition and measurement requirements) of the October 2021 meeting.

[16] Paragraph BCE.96 of the Basis of Conclusions on IFRS 9

easier for SMEs to apply than the general approach, and result in faithful representation.

Staff recommendation and question for the IASB

67. The staff recommend the IASB requires SMEs that provide financing to customers as one of its primary businesses to apply an expected credit loss model for impairment of financial assets, which is aligned with the simplified approach in IFRS 9.

Question for the IASB
5. Does the IASB agree with the staff recommendation in paragraph 67 of this paper?