

IASB (By online submission)

October 27, 2020

## **IASB request for information on IFRS for SMEs: Comprehensive Review of the IFRS for SMEs**

**Finansbolagens Förening (The Association of Swedish Finance Houses) is one of the partners of AFINA, which is a member of Leaseurope.**

**Finansbolagens Förening supports Leaseurope's answer to the IASB request for information on IFRS for SMEs: "Comprehensive Review of the IFRS for SMEs". However, in addition to Leaseurope's answer we strongly would like to add the following regarding IFRS for SMEs in general and regarding lease accounting in specific, which is of special interest to Sweden and Swedish SMEs.**

The association believes that accounting rules should be formulated in coherence with the needs of different types of companies and external stakeholders who have reason to use the companies' accounts, in the SME case they are very few and close.

IFRS for SMEs is based on existing IFRS standards (at the time e.g. IAS 17), which have been simplified in some respects. The fairly new IFRS 16 Leases standard have been developed to satisfy the listed companies' stakeholders. The rules are complicated, and the application requires expert knowledge. Importantly, the rules cannot be used as a basis for taxation – putting hard restraints and limitations on the national tax legislator.

With IFRS 16 a new dividing line arose, what is a leasing agreement and what is a service agreement? A distinction (too) difficult for SME to handle. As shown below, most Swedish SMEs do not need to differentiate between operational and financial leasing agreements. It is difficult to see how IFRS for SME based on IFRS 16 would provide the possibility for such a simple and easily applicable simplification as current IFRS for SME regarding leasing provides at national level in Sweden.

IFRS 16 has initially only affected listed companies and their group companies (subsidiaries that may in themselves be SMEs are thus directly affected). The single largest share of the Swedish leasing market, in both volume and number of contracts, relates to SMEs. The IASB problem definition with a large proportion of so-called "structured leasing transactions" and "lack of information" - repeated as a mantra - during the preparation of IFRS 16 are simply not relevant in relation to the Swedish leasing market for SMEs. Swedish SME companies do not use leasing to avoid transparency but to obtain access to a financing option, complementary to traditional bank loans. The few close stakeholders, e.g. owners,

creditors and auditors, if applicable (most Swedish SMEs with a net turnover under 3 million SEK are exempted from having an auditor), are well informed and have first-hand direct knowledge and insights. From a creditor perspective we see no need for more information. To summarize, there is no evidence that more information is needed or that extra information will be at all useful.

Today Swedish local gap for SME (K3) is based on IFRS for SME with some exceptions e.g. for tax purposes. The adjustment is however straight forward simple in that one of the two accounting methods in IFRS for SMEs (for operational leases) can be used for all leases within a legal entity in Sweden. This makes things easier for a majority of Swedish SMEs companies, which are not eligible to produce consolidated accounts. The possibility of maintaining a connection between accounting and taxation, something that immensely simplifies accounting for smaller companies, will be impossible if IFRS for SME would be based on IFRS 16. IFRS 16 type of rules in IFRS for SMEs will result in a new and excessive “double” accounting burden (one for accounting and one for tax purposes) for SME.

With current K3 rules for SME based on IFRS for SMEs, leasing offers a simple form of financing from an accounting perspective. The lessor's ownership of the object in combination with the lessee being given the opportunity to distribute the leasing fees/costs over the term of the agreement often provides opportunities to finance when traditional loan financing cannot be offered. For SMEs, leasing is therefore an important complement to traditional bank financing. The case for many start-ups is that leasing financing often is a decisive factor enabling the start of a new business. IFRS 16 prescribes a forward-looking cost accounting, which is a significant disadvantage for start-ups with limited revenues. I.e. more start-up capital is required to match the costs because of the burdensome cost recognition.

Against this background, it can thus be questioned whether the IASB's inflexible approach of basing IFRS for SMEs on IFRS rules that are designed for large companies and users of their accounts, is in line with the regulatory simplification work that is in process in both Sweden and within the EU (applying the “Think Small First” principle). It can also be questioned from other points of view whether IFRS for SME can meet the need for simple and suitable rules for smaller companies. IFRS is also undergoing constant and rapid change, which will affect IFRS for SMEs through the inflexible top down knock on approach so far chosen by the IASB.

## **Conclusions**

By changing the IFRS for SME following a mechanical self-evident top-down knock on logic instead of a needs-based “Think Small First” principle is thus a vital question for Swedish SMEs.

SMEs use leasing as a form of financing considering the advantages existing under current regulations, which gives these companies the opportunity to finance their investments in a rational and flexible way. This accessibility has contributed to the Swedish SME companies being able to expand, develop and contribute to the Swedish economy.

If IFRS 16 in the next step has an impact on the IFRS for SME, this will have a negative effect on SME opportunities to finance themselves. Financiers currently offering leasing can be expected to reduce or discontinue the product due to the higher requirements placed on leasing as a form of financing compared to other financial solutions e.g. difficult distinctions (leasing or service agreement?), difficult valuation issues (what value should be put on the balance sheet?) and more extensive supplementary information requirements in notes. A deteriorating supply of financing will lead to reduced competition and impaired opportunities for SMEs to finance their growth and contribute to the Swedish economy.

To avoid the foregoing, the Swedish K3 can simply not reflect such changes in the IFRS for SMEs if they would take place. Even from an IASB perspective it must be regarded as failure if the IFRS for SMEs becomes too difficult to adjust to well established sound simplification regimes for SMEs (including a connection between accounting and taxation), that the standard simply can't be used - which must be a prime objective for a standard setter. The Association believes that a much better solution would be that the current IFRS for SMEs regarding leasing remains. Evidently, today's standards are indeed well-functioning for SMEs and can furthermore easily be adopted to local tax regimes and simplification regimes. In other words, a more flexible "Think Small First" logic should be exercised by the IASB rather than a self-evident top-down knock on logic, and by doing so, not considering or meeting the actual needs of SME and their stakeholders.

FINANSBOLAGENS FÖRENING  
(The Association of Swedish Finance Houses)

  
Lars Zacharoff  
CEO

  
Per Holmgren