Addendum to the Exposure Draft

Third edition of the IFRS for SMEs *Accounting Standard*

March 2024

Comment template

Invitation to comment

The International Accounting Standards Board (IASB) invites comments on the proposals in the Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs* Accounting Standard, particularly on Questions 1–4. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) specify the paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative approach the IASB should consider, if applicable.

Instructions for completion

This separate Microsoft Word® document has been compiled by the staff of the IFRS Foundation for respondents to use for submitting their comments, if they wish.

This document presents all of the questions in the Invitation to Comment on the Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs* Accounting Standard in a table with spaces for responses.

Respondents are encouraged to complete this document electronically. Many respondents will find this the easiest way to submit their comments and making submissions in this form will also help ease the analysis of the answers. However, respondents are not required to use this document and responses will be accepted in all formats.

Respondents need not comment on all questions in the Invitation to Comment.

Comments to be received by **31 July 2024**

Name of Respondent:	***Salvador Marin, EFAA President and Paul Thompson, EFAA Technical Director***
Organisation:	***EFAA for SMEs***
Jurisdiction:	***Europe***
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General Comments

European Federation of Accountants and Auditors for SMEs ('EFAA for SMEs') welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for Addendum to Third Edition of IFRS for SMEs Accounting Standard that aims to amend Section 7 and Section 30 of the IFRS for SMEs Accounting Standard (the 'Standard'). This was done with the assistance of EFAA's Accounting and Tax Expert Group.

EFAA for SMEs represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 15 national accounting, auditing, and tax advisor organisations with more than 400,000 individual members. See www.efaa.com.

In the context of financial reporting our primary concern is to ensure standards are 'fit for purpose', that is sufficiently scalable to be used cost effectively by SMPs when preparing SME financial statements, provide the basis for SME financial statements that provide useful information to SME stakeholders, and serve the European public interest. We strongly prefer a 'Think Small First' approach, developing straightforward regulation and standards for SMEs and SMPs and then scaling up to suit larger more complex companies and practices.

While the IFRS for SMEs is not widely used in Europe EFAA for SMEs believes that IFRS and IFRS for SMEs influences the development of national financial reporting standards in many if not all European countries since it is seen as a source of best practice. Furthermore, we are keen to see the IFRS for SMEs develop so that it is more closely aligned with European regulation, standards and best practice as this will *increase the likelihood of it being used more widely in Europe and, in so doing, help harmonize SME financial reporting across the region and worldwide. There is merit in SME financial reporting being comparable across the world.*

Our general comments on the respective sections are as follows:

Section 7

Supplier finance arrangements take various forms and typically help entities improve their cash flow and ease financial pressures. We welcome the IASB's effort to incorporate the wide range of current and potential future supplier finance arrangements into the Standard. The proposed amendments provide timely useful guidance for SMEs on how to account for these arrangements and provide better information to users. We do, however, have some suggestions on how to enhance the usability of the proposed requirements and reduce the potential reporting burden (see our responses to Q1 and Q2).

Section 30

While we believe the circumstances in which a currency cannot be exchanged into another currency are rare, we agree with the IASB's view that when they do arise, they are generally accompanied by deteriorating economic conditions. We believe the proposed amendments are necessary to help SMEs account for the lack of exchangeability when the circumstances arise and to reduce the risk of diversity in practice. While we believe the proposed amendments will help SMEs determine whether a currency is exchangeable and to estimate the spot exchange rate when a currency is not exchangeable, we urge the Board to provide guidance on estimation techniques (see our response to Q3).

Our detailed responses to the specific questions are set out below.

Question	**Response** *(Please give clear reasoning to support your response)*
Question 1—Supplier finance arrangements—Scope and disclosure requirements (proposed new paragraphs 7.19B–7.19C) Proposed new paragraph 7.19B describes the characteristics of an arrangement about which an SME would be required to disclose the information described in this exposure draft. Paragraph 7.19B also sets out examples of the various forms of such arrangements that would be within the scope of the proposals.	*We welcome the proposed principles-based description of supplier finance arrangements as this will help ensure the Standard stands the test of time as new types of arrangements emerge. The description ought to stress that with these arrangements the entity will be paying a finance provider rather than the original supplier.*

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<tr><th>Question</th><th>Response
(Please give clear reasoning to support your response)</th></tr>
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The IASB proposes an SME disclose in aggregate for its supplier finance arrangements:
(a) the terms and conditions (but disclosing separately the terms and conditions of arrangements with dissimilar terms and conditions);
(b) as at the beginning and end of the reporting period:
(i) the carrying amounts, and associated line items presented in the SME’s statement of financial position, of the financial liabilities that are part of a supplier finance arrangement;
(ii) the carrying amounts, and associated line items, of the financial liabilities required to be disclosed (as described in the preceding subparagraph) for which suppliers have already received payment from the finance providers; and
(iii) the range of payment due dates for both the financial liabilities that would be required to be disclosed (as described in (i)) and comparable trade payables that are not part of the supplier finance arrangement; and
(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities that would be required to be disclosed (as described in (b)(i)).
Paragraphs BC1–BC12 of the Basis for Conclusions explain the IASB’s rationale for these proposals.
Do you have comments or suggestions on the proposed amendments to Section 7? Please explain the reasons for your suggestions.
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We agree with the proposals in paragraphs 7.19C(a) and 7.19C(b), except for 7.19C(b)(iii).

The disclosures required by paragraphs 7.19C(a) and 7.19C(b)((i) – (iii)) relate to financial instruments and as such are better placed in Section 11 than here.

Given many financial liabilities under supplier finance arrangements will likely mature within a year, we do not believe it is necessary to compare their payment due dates with the payment due dates of trade payables that are not under supplier finance arrangements. We believe disclosing the range of payment due dates for financial liabilities under supplier finance arrangement should be sufficient to meet the information needs of most users of SME financial statements.

Entities may already be disclosing payment due dates of trade payables in accordance with the disclosure required in paragraph 11.42. Since paragraph 7.19C(b)(iii) is more onerous than paragraph 11.42 we suggest the Board delete it.

We question whether paragraph 7.19C(c) helps SMEs understand what constitute non-cash changes to the carrying amounts of financial liabilities. In a supplier finance arrangement, an entity will normally pay a finance provider rather than the actual supplier for goods or services supplied. It may not be clear that there has been a non-cash change in financial liabilities and that such arrangements result in borrowings.

We suggest adding an example to paragraph 7.19C(c) or extend the examples in paragraphs 7.4 and 7.6 to help SMEs understand how and why the nature of cash flows could potentially change from being cash flows from operating activities to cash flows from financing activities.
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Question 2—Supplier finance arrangements—Costs of applying proposed new paragraph 7.19C(b)(ii)
Some stakeholders informed the IASB that some information about supplier finance arrangements might not be readily available and might be costly to obtain. In particular, information about the carrying amounts, and associated line items, of the financial liabilities that are part of such arrangements and for which suppliers have already received payment from the finance providers (proposed new paragraph 7.19C(b)(ii)) might not be readily available.
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For all the proposed disclosure except for the disclosure proposed in paragraph 7.19C(b)(iii) (see our response to Q1) we believe the benefits for users of SME financial statements will likely outweigh the costs.

We believe an SME that engages in supplier finance arrangement as a part of sound financial management should develop or modify its accounting processes, internal controls and financial reporting systems to ensure it makes timely and accurate payments to the appropriate counterparty. While these modifications will inevitably
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Question	Response *(Please give clear reasoning to support your response)*
Paragraphs BC13–BC15 of the Basis for Conclusions provide information about the potential costs of complying with the proposed disclosure requirement and explain the IASB's rationale for this proposal. **Do you agree that the benefits for users of SMEs' financial statements would outweigh the potential costs for SMEs to provide the information required by proposed new paragraph 7.19C(b)(ii)? Please explain the reasons for your view.**	*incur incremental cost, they are essential to ensure sound financial management. If the information required by paragraph 7.19C(b)(ii) is not yet available, then it will be eventually.*
Question 3—Lack of exchangeability (proposed new paragraphs 30.5A, 30.28–30.29 and 30A.1–30A.18) Section 30 of the *IFRS for SMEs* Accounting Standard generally requires the use of a spot exchange rate when an SME reports foreign currency transactions or a foreign operation's results and financial position in its financial statements. However, it does not specify the exchange rate to use when there is a lack of exchangeability between two currencies. To address this deficiency, the IASB proposes to amend Section 30 of the Standard: (a) to specify when a currency is exchangeable into another currency; (b) to set out the factors an SME is required to consider in assessing exchangeability and to specify how those factors affect the assessment; (c) to specify how an SME determines the spot exchange rate when a currency is not exchangeable into another currency; and (d) to require an SME to disclose information that would enable users of its financial statements to understand how a lack of exchangeability between two currencies affects, or is expected to affect, its financial performance, financial position and cash flows. Paragraphs 30A.1–30A.11 of [draft] Appendix A to Section 30 of the Standard set out the factors an SME would be required to consider in assessing exchangeability and specify how those factors would affect the assessment. Paragraphs 30A.12–30A.18 of [draft] Appendix A to Section 30 of the Standard provide application guidance that would help an SME estimate the spot exchange rate when a currency is not exchangeable into another currency. Paragraphs BC18–BC39 of the Basis for Conclusions explain the IASB's rationale for these proposals. **Do you have comments or suggestions on the proposed amendments to Section 30? Please explain the reasons for your suggestions.**	*We agree with the objective in paragraph 30.5A for estimating the spot exchange rate when a currency is not exchangeable.* *While we believe paragraphs 30A.1 – 30A.18 will generally help SMEs determine whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable, we wish to suggest some enhancements to the proposed application guidance.* *We agree with paragraph 30A.5 that states a normal administrative delay should not preclude a currency from being exchangeable into another currency. If the Board is unable to provide examples of circumstances that constitute a 'normal administrative delay', we suggest the Board instead considers providing examples of circumstances that are unacceptable and therefore do* ***not*** *constitute normal administrative delay in paragraph 30A.5. These circumstances may include delays that are avoidable and within the entity's control such as delays caused by incomplete documentation.* *We also agree with paragraph 30A.8 that states that an unfavourable exchange rate for a particular purpose does not render a currency not exchangeable* *While paragraph 30A.12 permits an entity to use 'another estimation technique' and refers to paragraph 30A.18, the latter lacks guidance on the estimation technique when an observable exchange rate is not available. Paragraph 30A.18 permits an entity to use 'any observable exchange rate' and adjust that rate as necessary. We urge the Board to provide guidance on acceptable estimation techniques including examples of acceptable estimation techniques such as the use of economic models.* *We agree with the disclosure proposed in paragraphs 30.28 – 30.29. This information will help users to understand how amounts denominated in a currency that lacks exchangeability is reported.*

Question	Response *(Please give clear reasoning to support your response)*
Do you agree that the proposals in paragraphs 30A.1–30A.18 of [draft] Appendix A to Section 30 would provide sufficient application guidance for SMEs? If you disagree with these proposals, please explain what you would suggest instead and why.	
Question 4—Effective date and transition (proposed new paragraph A37A) The IASB proposes: (a) that the amended Section 7 and Section 30 of the *IFRS for SMEs* Accounting Standard have the same effective date as that of the third edition of the Standard;[1] (b) no transition relief in relation to the amendments to Section 7 of the Standard; and (c) specific transition requirements in relation to the amendments to Section 30 of the Standard. Proposed new paragraph A37A of Appendix A to the Standard sets out transition requirements for the amendments to Section 30 of the Standard. Paragraphs BC16–BC17 and paragraphs BC40–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals. **Do you agree with these proposals? Why or why not? If you disagree with these proposals, please explain what you would suggest instead and why.**	*We agree with the amended Section 7 and Section 30 having the same effective date as that of the third edition of the Standard and having no transition relief in relation to the amendments to Section 7.* *We agree with not restating comparative information when, at the date of initial application of the new paragraph 30.5A, a currency is not exchangeable.* *We agree with the transition requirements in paragraph A37A(a) and A37A(b).* *We believe users will likely be interested in the current value of assets and liabilities and the entity's current exposure to a currency that is not exchangeable.*

[1] In the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* the IASB proposed that the effective date of the third edition of the Standard be a minimum of two years from the issue date, with early application permitted.