# Staff paper

SMEIG Agenda reference: 2

**SME Implementation Group meeting**

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| Date | **September 2024** |
| Project | **Addendum to the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard*** |
| Topic | **Analysis of feedback** |
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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 Standards 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® Accounting Standards or the *IFRS for SMEs*® Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

## Introduction

1. In March 2024, the International Accounting Standards Board (IASB) published the Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs* Accounting Standard (Addendum Exposure Draft). The comment period ended on 31 July 2024.

2. The proposals in the Addendum Exposure Draft supplement those in the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (2022 Exposure Draft). The supplementary amendments to the *IFRS for SMEs* Accounting Standard (the Standard) would align:

   (a) Section 7 *Statement of Cash Flows* of the Standard with IAS 7 *Statement of Cash Flows*, as amended by *Supplier Finance Arrangements*; and

   (b) Section 30 *Foreign Currency Translation* of the Standard with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, as amended by *Lack of Exchangeability*.

## Purpose of this paper

3. This paper:

   (a) summarises feedback on the Addendum Exposure Draft;

   (b) provides staff analysis of that feedback;

   (c) includes potential staff recommendations to the IASB on how to proceed; and

   (d) asks the SME Implementation Group (SMEIG) members for comments on the potential staff recommendations to the IASB.

4. We will consider SMEIG's comments when preparing our recommendations for the IASB on how to proceed. The IASB plans to discuss feedback on the Addendum Exposure Draft and finalise any resulting amendments at its September 2024 meeting.

## Structure of this paper

5. This paper includes:

   (a) overview of respondents (paragraphs 6–11);

   (b) supplier finance arrangements (paragraphs 12–53);

   (c) lack of exchangeability (paragraphs 54–65);

   (d) effective date and transition (paragraphs 66–73);

   (e) summary of potential staff recommendations to the IASB (paragraph 74);

   (f) questions for the SMEIG;

   (g) Appendix A—staff recommended revisions to the proposed amendments to Section 7 of the Standard;

   (h) Appendix B— extract from the Addendum Exposure Draft for proposed amendments to Section 30 of the Standard;

   (i) Appendix C— staff recommended revisions to the proposed transition requirements; and

(j) Appendix D—analysis of other comments.

## Overview of respondents

6. We raised awareness about the Addendum Exposure Draft through:

   (a) social media posts (one about the proposed amendments relating to supplier finance arrangements and the other about the proposed amendments relating to lack of exchangeability);

   (b) targeted email to some SMEIG members[1] to obtain further evidence about the prevalence of supplier finance arrangements among SMEs in their jurisdictions;

   (c) December 2023, April 2024 and June 2024 *IFRS for SMEs* Accounting Standard Updates;

   (d) emails to the 93 individuals who expressed interest in participating in the fieldwork on the impairment of SMEs' financial assets;

   (e) a session at the May 2024 meeting of the Islamic Finance Consultative Group; and

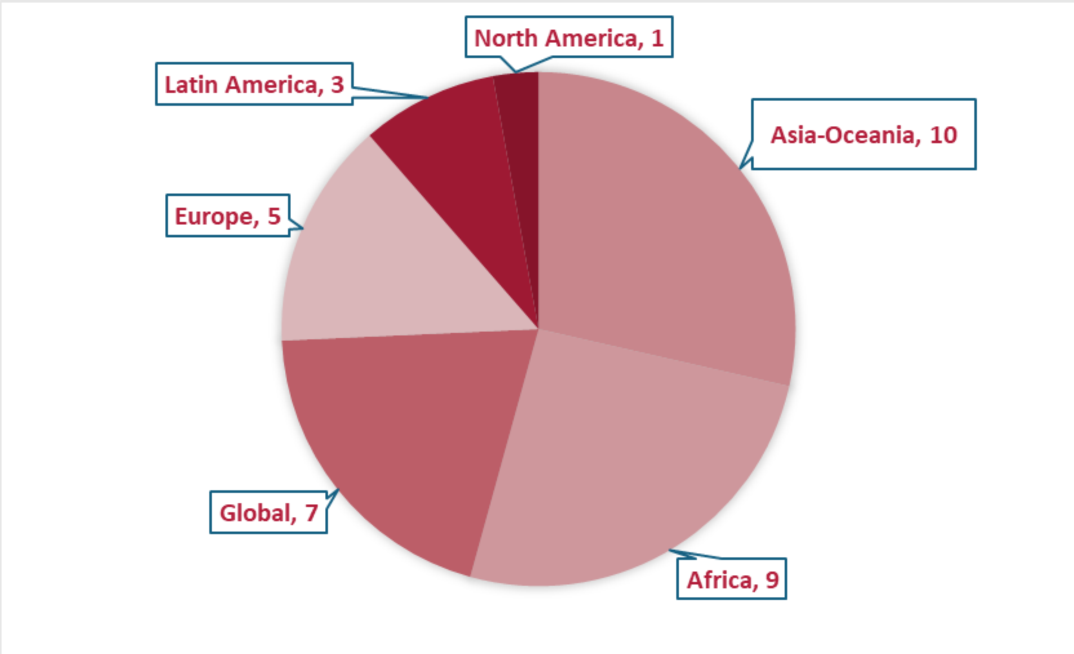
   (f) a session at the May 2024 meeting of the Emerging Economies Group.

7. The IASB received 35 comment letters on the Addendum Exposure Draft. Responses were received from national standard-setters, accountancy bodies, accounting firms and individuals. All comment letters are available on the IFRS Foundation website.

8. The following chart presents the analysis of comment letters by region:

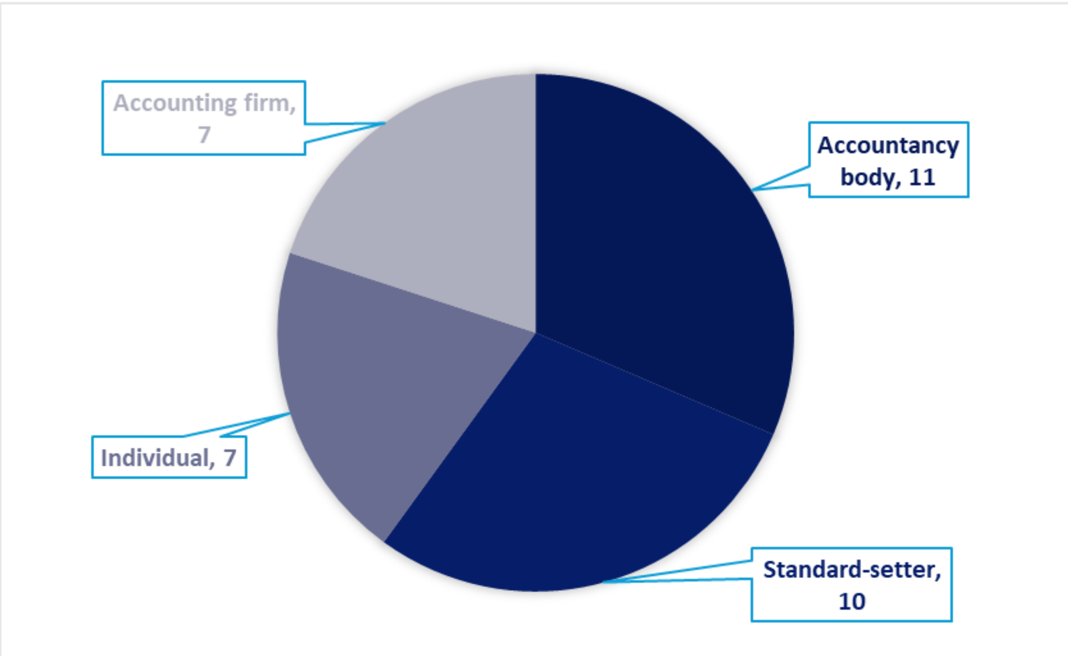
[1] Members of accounting firms and consulting services firms.

**Figure 1—Analysis of comment letters by region**




9. The following chart presents the analysis of comment letters by stakeholder type. Of the 10 standard-setters, many (almost all from Latin America and Asia-Oceania) require or permit the use of the *IFRS for SMEs* Accounting Standard.

**Figure 2—Analysis of comment letters by stakeholder type**



10. In this paper the staff use the following terms to quantify the feedback:

| Term | Extent of response among respondents |
|---|---|
| Almost all | All except a very small minority |
| Most | A large majority, with more than a few exceptions |
| Many | A small majority or large minority |
| Some | A small minority, but more than a few |
| A few | A very small minority |

11. The IASB received feedback on all aspects of the proposals. However, respondents did not always comment on all questions (or sub-questions) in the Invitation to Comment on the Addendum Exposure Draft. Consequently, we have used the terms listed in paragraph 10 of this paper to describe the proportion of the respondents based on those respondents that commented on a particular question. Therefore, this is not necessarily a proportion of all respondents.

## Supplier finance arrangements

12. This section summarises feedback on Questions 1–2 in the Invitation to Comment on the Addendum Exposure Draft. This section includes staff analysis of comments on:

   (a) scope of disclosure requirements as described in proposed paragraph 7.19B (paragraphs 13–19); and

   (b) disclosure requirements, analysing separately feedback on proposed new:

      (i) paragraph 7.19C(a) (paragraphs 20–27);

      (ii) paragraph 7.19C(b)(i)–(ii) (paragraphs 28–42);

      (iii) paragraph 7.19(C)(b)(iii) (paragraphs 43–49); and

      (iv) paragraph 7.19C(c) (paragraphs 50–53).

### *Scope of disclosure requirements (paragraph 7.19B)*

13. Proposed new paragraph 7.19B describes the characteristics of supplier finance arrangements within the scope of the proposed new disclosure requirements and states:

> Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

#### *Feedback from respondents*

14. Almost all respondents agreed, or did not disagree, with the proposed paragraph 7.19B for the reasons explained in the Basis for Conclusions of the Addendum Exposure Draft. Some respondents suggested improvements to the proposed paragraph, including:

    (a) a few respondents said the last sentence of equivalent paragraph 44G of IAS 7 provides examples of arrangements that are *not* supplier finance arrangements. In these respondents' view, this sentence is also relevant to SMEs because financial guarantees and corporate credit cards are common among SMEs. Without that sentence an SME might conclude that, or spend unnecessary time considering whether, those arrangements have the characteristics of a supplier finance arrangement. The respondents noted that paragraph BC6 of the Basis for Conclusions on the Addendum Exposure Draft includes examples of arrangement that are *not* supplier finance arrangements and suggested the

IASB include these examples in proposed paragraph 7.19B because that would:

(i) be consistent with full IFRS Accounting Standards and the IASB's objective to align Section 7 of the Standard with IAS 7;

(ii) improve accessibility of the requirements because they would be included in a single location; and

(iii) improve understandability of the requirements because the description would include a list of examples of arrangements frequently used by SMEs that would and would *not* fall within the scope of the proposed new disclosure requirements.

(b) a few accountancy bodies said a key feature of a supplier finance arrangement (that is, the entity pays the finance providers instead of the supplier) should be made clear in the Standard.

(c) an individual and an accountancy body said the term 'supplier finance arrangements' should be clearly defined to ensure ease of application and translation.

(d) a few accountancy bodies suggested including (for example, in educational material that accompanies the Standard) more examples of arrangements that are supplier finance arrangements.

*Staff analysis*

15. We agree with the respondents who suggested including in proposed new paragraph 7.19B examples of arrangements that are *not* supplier finance arrangements. Additional clarity in the main body of the Standard will improve understandability and consistent application of the prospective requirements. Therefore, we plan to recommend including paragraph BC6 of the Basis for Conclusions on the Addendum Exposure Draft in prospective new paragraph 7.19B of the Standard (see Appendix A to this paper).

16. We agree that one of the characteristics of supplier finance arrangements is that the entity pays the finance providers instead of the supplier. This is clearly stated in paragraph BC4(a) of the Basis for Conclusions on the Addendum Exposure Draft. However, we note that in some arrangements (that are *not* supplier finance arrangements within the meaning of the proposed new requirements) entities may also pay their finance providers instead of the suppliers. For example, as explained in paragraph BC6(b) of the Basis for Conclusions on the Addendum Exposure Draft, instruments used by an SME to settle directly with a supplier the amounts owed (such as a situation in which an SME uses a credit card to settle the amount owed to a supplier and then has an obligation to pay the issuing bank instead), are *not* supplier finance arrangements within the meaning of the proposed new requirements. Therefore, we recommended no changes to the proposals.

17. In our view the characteristics described in proposed paragraph 7.19B are sufficient for an SME to appropriately identify supplier finance arrangements for which the SME would be required to disclose the information described in proposed new paragraph 7.19C. As some respondents acknowledged, the proposed principles-based description of supplier finance arrangements will help ensure the Standard stands the test of time as possible new types of arrangements emerge.

18. Therefore, we plan to recommend that the IASB should finalise its proposals in paragraph 7.19B including the revisions described in paragraph 15 of this paper (see also Appendix A).

19. We think the IASB can include additional examples of supplier finance arrangements within the meaning of the proposed new requirements when it updates the *IFRS for SMEs* educational modules to support the third edition of the Standard.

### *Disclosure requirements—terms and conditions (paragraph 7.19C(a))*

20. Proposed new paragraph 7.19C(a) states:

7.19C An entity shall disclose in aggregate for its supplier finance arrangements:

(a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.

*Feedback from respondents*

21. Almost all respondents agreed, or did not disagree, with the proposed paragraph 7.19C(a) for the reasons explained in the Basis for Conclusions on the Addendum Exposure Draft. Some respondents suggested simplifications, including:

(a) a standard-setter and two accountancy bodies suggested only the disclosure of *key* terms and conditions of supplier finance arrangements (such as interest charges) be required, because it would be a suitable simplification that would help ensure the requirements are proportionate. [emphasis added]

(b) a standard-setter said criteria for aggregation should be clearly defined to prevent material information from being obscured.

(c) a standard-setter said it is unclear whether SMEs would be required to disclose information about *all* its supplier finance arrangements or only those that are [individually] material. In this respondent's view, the requirement for an SME to disclose information in aggregate for all its supplier finance arrangements might not be a relief for an SME. This might happen when, for example, the SME has several supplier finance arrangements, and the amounts are immaterial for each. An accountancy body said individually immaterial supplier finance arrangements should be excluded from the scope of the proposed disclosure requirements. So, SMEs would disclose (in aggregate) information about its individually material supplier finance arrangements only. [emphasis added]

(d) an accountancy body suggested including in education materials examples of the types of dissimilar terms and conditions that would require separate disclosure. In this respondent's view, supplier finance arrangements are prevalent among SMEs and the terms and conditions of these arrangements might differ significantly. To enhance consistent application of the prospective requirements, an individual suggested developing a reporting template for entities to help them determine which terms and conditions are dissimilar.

*Staff analysis*

22. We agree with the suggestion in paragraph 21(a) of this paper to require only the disclosure of key terms and conditions of the arrangements. In our view, this would provide an adequate basis for an SME to determine which information to disclose to inform users of its financial statements that supplier finance arrangements are in place and explain their nature.[2]

23. In addition, we agree with the suggestion summarised in paragraph 21(a) of this paper to include interest charged by a finance provider as one example of a key term and condition, because this will improve the understandability of the requirements and make their application easier for SMEs. This will also ensure that users receive information that helps them better understand the cost of supplier finance arrangements and compare it with the cost of other financing arrangements used by the entity.

24. We also think, the IASB could extend the list of examples in proposed paragraph 7.19C(a) by including fees charged by finance providers. Including fees as an example was not suggested by any respondent, however, one of the respondents noted that

[2] We note that the notion of key terms and conditions is already applied in full IFRS Accounting Standards—for example, in paragraph B52 of IFRS 16 *Leases*.

these fees would be disclosed applying proposed paragraph 7.19C(a). We agree with this observation. We generally expect:

(a) interest charges to be one of the key terms and conditions of the types of supplier finance arrangements described in paragraph BC4(a) of the Basis for Conclusions on the Addendum Exposure Draft.

(b) fees to be one of the key terms and conditions of the types of supplier finance arrangements described in paragraph BC4(b) of the Basis for Conclusions on the Addendum Exposure Draft. In these types of supplier finance arrangements, the early payment to the supplier does not impact the timing or amount of the payment by the entity, but the entity pays the finance provider fees for entering into and making the supplier finance arrangement available to the entity for a contractually specified period.

25. We do not think it would be possible to provide a uniform set of criteria for aggregation that would fit all entities because terms and conditions of supplier finance arrangements differ across jurisdictions and finance providers. Entities will need to apply materiality judgement to decide when (key) terms and conditions of supplier finance arrangements would require separate disclosure to avoid material information from being omitted or obscured. As the IASB explained in paragraph BC10 of the Basis for Conclusions on the Addendum Exposure Draft, ‘supplier finance arrangements share the characteristics described in proposed paragraph 7.19B, and it is those characteristics that give rise to the information needs of users of financial statements. Therefore, users of an SME’s financial statements do not need information about each individual supplier finance arrangement’.

26. In response to the comment summarised in paragraph 21(c) of this paper we note that materiality relates to an item of information about a supplier finance arrangement, not necessarily the amounts. In other words, information about (key) terms and conditions of supplier finance arrangements may be material because of the nature of these transactions, even if the amounts are immaterial.

27. We plan to recommend the IASB consider requests for additional guidance when it updates the *IFRS for SMEs* educational modules to support the third edition of the Standard. This guidance could include, for instance, examples of the types of dissimilar terms and conditions that might require separate disclosure.

### *Disclosure requirements—carrying amounts (paragraph 7.19C(b)(i)–(ii))*

28. Proposed new paragraph 7.19C(b)(i)–(ii) states:

> An entity shall disclose in aggregate for its supplier finance arrangements:
>
> …
>
> (b) as at the beginning and end of the reporting period:
>
> (i) the carrying amounts, and associated line items presented in the entity'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 disclosed in accordance with (i) for which suppliers have already received payment from the finance providers.

*Feedback from respondents*

29. Some respondents commented specifically on the proposed paragraph 7.19C(b)(i). Of those respondents, all agreed with the proposal. A standard-setter and an accountancy body suggested simplifications. They said paragraph 3.14 of the Standard already

requires presentation and disclosure of comparative information and there is no need to repeat this requirement in the proposed paragraph 7.19C(b)(i)–(iii).[3]

30. Almost all respondents commented on the proposed paragraph 7.19C(b)(ii). Of those respondents, many agreed, and some disagreed with the proposal.

31. The many respondents who agreed with the proposals said the benefits for users of the SME's financial statements will likely outweigh the costs of applying proposed new paragraph 7.19C(b)(ii) as explained in the Basis for Conclusions on the Addendum Exposure Draft. The respondents' other comments included:

    (a) cost cannot be a reason for exemption.

    (b) the information would be readily available either from internal sources or from the finance providers, because when a finance provider pays a supplier, the finance provider informs the SME about the amount the SME owes the finance provider.

    (c) SMEs entering into supplier finance arrangements should develop or modify their accounting processes, internal controls and financial reporting systems to ensure they make timely and accurate payments to the appropriate counterparty (that is, to avoid paying the finance provider and the supplier for the same invoice). These modifications might require some costs, but they are essential to ensure sound financial management.

    (d) the purpose of the proposed suite of disclosure requirements about supplier finance arrangements would be fundamentally undermined without the information about amounts settled by the finance providers. Users' information needs would not be met, because they would receive incomplete information and would not be able to analyse the SME's liabilities and the effect that supplier financing arrangements have on the SME's operating and

[3] Paragraph 3.14 of the *IFRS for SMEs* Accounting Standard states: Except when this Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

financing cash flows. Also, users would not fully understand the SME's exposure to liquidity risk and how the liquidity position would change if the arrangements were no longer available.

32. Two accounting firms and an accountancy body who agreed with the proposal questioned the practical ability of SMEs to access the information required and suggested the disclosure requirement be subject to the undue cost or effort exemption.[4]

33. Some respondents disagreed with the proposals because in their view disclosing that information would be onerous and costly for SMEs, in particular smaller entities, and those costs will outweigh the benefits for users. Their comments included:

(a) an accountancy body said external users of SMEs' financial statements are particularly interested in information about the overall liquidity and debt levels rather than more detailed information in proposed paragraph 7.19C(b)(ii). This respondent suggested instead the IASB 'encourage, but not require' SMEs to disclose the information if it is readily available and if the SME believes that information significantly impacts its financial transparency.

(b) two accounting firms and a standard-setter said SMEs are unlikely to have access readily to the information that would be required by the proposed new paragraph 7.19C(b)(ii). SMEs would need to obtain this information from their finance provider(s). SMEs (i) might not have the practical ability to obtain this information from the finance provider or (ii) might not be entitled to obtain this information because it may be subject to a separate agreement between the finance provider and the supplier(s). SMEs may not have the same negotiating power as entities applying full IFRS Accounting Standards to obtain this additional information from the finance providers at a reasonable price.

(c) a few respondents (including a standard-setter and an accountancy body) said the *IFRS for SMEs* Accounting Standard does not include any reduced

[4] See paragraphs 2.14A–2.14D of the *IFRS for SMEs* Accounting Standard.

disclosure options. Requiring micro-SMEs or owner-managed SMEs to disclose the information in proposed paragraph 7.19C(b)(ii) would not be proportional to the size of these entities—such SMEs might not have capacity to apply the proposed requirements. An individual suggested implementing a 'tiered disclosure requirement based on the size of the liabilities involved or the significance of the finance arrangements to the SME's operations'.

(d) an accounting firm said the IASB's rationale in paragraph BC9(c)(ii) of the Basis for Conclusions on the Addendum Exposure Draft is relevant for entities applying full IFRS Accounting Standards. This is because paragraph 44H(b)(ii) of IAS 7[5] together with paragraph 39 of IFRS 7 *Financial Instruments: Disclosures* provides holistic information to users on liquidity risk.[6] In the absence of the equivalent requirement to that in paragraph 39 of IFRS 7, an SME would not provide meaningful insight into its exposure to liquidity risk and effects on its cash flows.

(e) a standard-setter said information about the amounts settled by the finance providers would be of limited value because banks that make loans to SMEs are one of the main groups of external users of SMEs' financial statements and these banks might be the same as the finance providers in supplier finance arrangements. This respondent also said the carrying amounts of the liabilities that are part of the supplier finance arrangement and the carrying amounts of the liabilities for which suppliers have already received payment from the finance providers are generally not materially different due to the short-term nature of these liabilities. Therefore, information required by proposed new paragraph 7.19C(b)(i) would meet the user information needs.

[5] Equivalent to the proposed new paragraph 7.19C(b)(ii) of the *IFRS for SMEs* Accounting Standard

[6] Paragraph 39 of IFRS 7 states: An entity shall disclose: (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities. (b) a maturity analysis for derivative financial liabilities. […] (c) a description of how it manages the liquidity risk inherent in (a) and (b).

*Staff analysis*

34. We disagree with the respondents' suggested simplification in paragraph 29 of this paper to remove from proposed new paragraph 7.19C(b)(i)–(iii) the requirement for an SME to disclose information as at the beginning of the reporting period. Even though paragraph 3.14 requires the disclosure of comparative information, we think that repeating that requirement specifically in the context of supplier finance arrangements would ensure that this information is not omitted from the financial statements and users receive complete information every year. We understand that there would be no incremental costs for SMEs to keep the proposals unchanged. However, in response to some respondents' concerns about lack of transition reliefs, we recommend some simplified disclosure requirements in the first year of application of the third edition of the Standard (see paragraph 72 of this paper).

35. Consequently, we plan to recommend the IASB finalises its proposals in paragraph 7.19C(b)(i) of the Addendum Exposure Draft.

36. Based on the feedback, we also plan to recommend the IASB finalise its proposal in paragraph 7.19C(b)(ii). We considered the suggestion for the IASB to require disclosure of information about the amounts settled by finance providers (proposed new paragraph 7.19C(b)(ii)), subject to the undue cost or effort exemption (see paragraph 32 of this paper). In our view, this exemption would not be operable for the proposed disclosure requirement because using supplier finance arrangements will inevitably require SMEs to design new processes and internal controls. As many respondents acknowledged, many SMEs might not have the required information readily available. Therefore, we think that in practice the undue cost or effort exemption would be available for the wrong reason. It might be used too often and would serve as de facto 'blanket' exception, which would not be consistent with the IASB's rationale or would not reflect the respondents' objective. For similar reasons, we do not think an alternative approach as we summarised in paragraph 33(a) of this paper would be operable.

37. Feedback summarised in paragraph 33(b) of this paper suggests that most SMEs would need to obtain the information required by proposed paragraph 7.19C(b)(ii) from the finance providers, but (i) SMEs might not have the practical ability to obtain this information from the finance provider or (ii) might not have the power to request this information from the finance supplier. To address these two cases we suggest that SMEs are required to disclose the information in proposed paragraph 7.19C(b)(ii) unless it is impracticable to do so.[7] See Appendix A to this paper for our potential recommendations to the IASB on how to revise the proposals in paragraph 7.19C(b)(ii) to include an impracticable exemption.

38. We think including the impracticable exemption would alleviate some of the concerns summarised in paragraph 33(c) of this paper about the proposed disclosure requirements not being proportional to the size or complexity of some SMEs.

39. In response to the comment summarised in paragraph 33(d) of this paper, we agree that a maturity analysis of financial liabilities provides information about another aspect of an entity's liquidity risk. We note that at its meeting in May 2024, the IASB tentatively decided to add a requirement to Section 11 *Financial Instruments* for an SME to disclose a maturity analysis for financial liabilities (based on paragraph 39 of IFRS 7).[8]

40. We disagree with the comment in paragraph 33(e) of this paper that carrying amounts disclosed applying proposed paragraph 7.19C(b)(i) are generally not materially different from carrying amounts that would be disclosed applying proposed paragraph 7.19C(b)(ii) due to the short-term nature of trade liabilities. This statement would only be true in a narrow set of circumstances. For example, 100% of an SME's trade payables are part of a supplier finance arrangement, and the SME's suppliers choose to be paid a discounted amount by the finance provider as soon as they issue an invoice to the SME. In other, more realistic and complex scenarios, without the

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[7] Appendix B—Glossary of terms to the *IFRS for SMEs* Accounting Standard defines impracticable as: Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

[8] See Agenda Paper 30D *Disclosure requirements: IFRS for SMEs Accounting Standard and IFRS 19 Subsidiaries without Public Accountability: Disclosures* and IASB *Update* of the May 2024 IASB meeting.

information about the amounts settled by the finance provider, users would receive incomplete information.

41. In addition, we think that in some jurisdictions SMEs enter into supplier finance arrangements with the same finance providers as entities applying full IFRS Accounting Standards. So, finance providers will be familiar with what information is needed for entities to prepare the required disclosure.

42. We plan to recommend that the IASB should finalise the proposals in paragraph 7.19C(b)(i)–(ii) as illustrated in Appendix A to this paper (subject to drafting comments and editorial corrections).

### *Disclosure requirements—range of payment due dates (paragraph 7.19C(b)(iii))*

43. Proposed new paragraph 7.19C(b)(i)–(ii) states:

> An entity shall disclose in aggregate for its supplier finance arrangements:
>
> …
>
> (b) as at the beginning and end of the reporting period:
>
> (i) the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.
>
> …
>
> (iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed in accordance with (i) and comparable trade payables that are not part of the supplier finance arrangement. Comparable trade

payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed in accordance with (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or divide them into narrower ranges.

*Feedback from respondents*

44. Only some respondents commented specifically on the proposed paragraph 7.19C(b)(iii). Of these respondents, a few agreed with the proposal:

    (a) a standard-setter said it would be useful if the IASB clarified whether SMEs should disclose weighted average payment terms or the shortest and longest payment terms; and

    (b) an accountancy body said it would be more practical to only report the range of payment due dates for financial liabilities that are part of supplier finance arrangements.

45. A few respondents disagreed with the proposal:

    (a) a few accountancy bodies (two from Europe and one global) shared similar comments and said it is unnecessary to compare (i) payment due dates of financial liabilities that are part of supplier finance arrangements with (ii) payment due dates of trade payables that are *not* part of supplier finance arrangements, given short-term nature of trade payables. In these respondents' view, disclosing the range of payment due dates for financial liabilities that are part of supplier finance arrangements should be sufficient to meet the information needs of most users of SME financial statements and suggested removing the requirement to compare the ranges of payment due dates that are not part of the supplier finance arrangement. The respondents said an SME might already disclose payment due dates of trade payables that are *not* part of supplier finance arrangements applying paragraph 11.42 of the Standard.[9]

(b) conversely, an accounting firm expressed concerns about the undue cost to access the required information from third parties and suggested the IASB remove the proposal to disclose payment due dates of financial liabilities that are part of supplier finance arrangements. In this respondent's view, the proposal would not provide useful information without the requirements in the *IFRS for SMEs* Accounting Standard equivalent to those in paragraph 39 of IFRS 7.[10]

*Staff analysis*

46. Considering that almost all respondents in general agreed, or did not disagree, with the proposal, or did not express any specific concerns about the proposed new paragraph 7.19C(b)(iii), we plan to recommend that the IASB finalise the proposals without any changes.

47. In our view, SMEs would not need to do any complex calculations, such as weighted average payment due date, to comply with the prospective requirements. We expect SMEs to apply the requirements as written, disclosing the shortest and the longest payment due date within the range. As the IASB already clarified in the proposed paragraph, 'if ranges of payments due dates are wide, an entity shall disclose explanatory information about those ranges *or divide them into narrower ranges*'. [emphasis added]

48. Paragraph 11.42 of the Standard does not explicitly require SMEs to disclose the range of payment due dates for trade payables that are not part of supplier finance arrangements. In our view this specific disclosure requirement in prospective

[9] Paragraph 11.42 of the *IFRS for SMEs* Accounting Standard states: An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).

[10] See footnote 6.

paragraph 7.19C(b)(iii) of the Standard is essential to enable users of the SME's financial statements to assess how supplier finance arrangements affect the SME's cash flows (paragraph BC9(d) of the Basis for Conclusions on the Addendum Exposure Draft).

49. We disagree with the respondents comment summarised in paragraph 45(b) of this paper that the proposal would not provide useful information without the requirements in the Standard equivalent to those in paragraph 39 of IFRS 7. We have explained in paragraph 39 of this paper that at its meeting in May 2024, the IASB tentatively decided to add a requirement to Section 11 for an SME to disclose a maturity analysis for financial liabilities.

### *Disclosure requirements—non-cash changes (paragraph 7.19C(c))*

50. Proposed new paragraph 7.19C(c) states:

> An entity shall disclose in aggregate for its supplier finance arrangements:
>
> …
>
> (b) as at the beginning and end of the reporting period:
>
> (i) the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.
>
> …
>
> (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed in accordance with (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences and other transactions that do not require the use of cash or cash equivalents (see paragraph 7.18).

*Feedback from respondents*

51. Some respondents commented specifically on the proposal in paragraph 7.19C(c). Of these respondents, almost all agreed with the proposal. A standard-setter from Latin America disagreed with it because SMEs might need to incur undue cost or effort to comply with it.

52. Respondents who agreed suggested including in prospective paragraph 7.19C(c) examples to help SMEs better understand how and why the nature of cash flows changes from operating cash flows to financing cash flows. An accounting firm suggested including in prospective paragraph 7.19C(c) the examples of non-cash changes described in paragraph BC9(f) of the Basis for Conclusions on the Addendum Exposure Draft.

*Staff analysis*

53. Considering that almost all respondents in general agreed, or did not disagree, with the proposal, or did not express any specific concerns about proposed new paragraph 7.19C(c), we plan to recommend that the IASB finalise the proposals with one change. We agree that it would be useful to expand the examples of non-cash changes in prospective paragraph 7.19C(c) based on paragraph BC9(f) of the Basis for Conclusions on the Addendum Exposure Draft. See Appendix A to this paper for our potential recommendations to the IASB on how to revise the proposals in paragraph 7.19C(c).

## Lack of exchangeability

54. This section analyses feedback on Question 3 in the Invitation to Comment on the Addendum Exposure Draft.

| **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 |

| **Question 3—Lack of exchangeability (proposed new paragraphs 30.5A, 30.28–30.29 and 30A.1–30A.18)** |
|---|
| exchangeability between two currencies. To address this deficiency, the IASB proposes to amend Section 30 of the Standard:<br>(a) to specify when a currency is exchangeable into another currency;<br>(b) to set out the factors an SME is required to consider in assessing exchangeability and to specify how those factors affect the assessment;<br>(c) to specify how an SME determines the spot exchange rate when a currency is not exchangeable into another currency; and<br>(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.<br>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.<br>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.<br>Paragraphs BC18–BC39 of the Basis for Conclusions explain the IASB's rationale for these proposals.<br>Do you have comments or suggestions on the proposed amendments to Section 30? Please explain the reasons for your suggestions.<br>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. |

### *Feedback from respondents*

55. All respondents agreed or did not disagree with the IASB's proposed amendments to Section 30 of the Standard for the reasons explained in the Basis of Conclusions on the Addendum Exposure Draft. In particular, a few respondents acknowledged that lack of exchangeability might arise relatively infrequently and is likely to be relevant only to a limited number of jurisdictions. Some respondents said proposed new paragraphs 30A.1–30A.18 would provide sufficient application guidance for SMEs. Many other respondents suggested the IASB consider providing additional guidance through illustrative examples, decisions trees, flowcharts or other educational materials. A few respondents requested additional guidance specifically on:

(a) normal administrative delay. A few accountancy bodies said if the IASB is unable to provide examples of circumstances that constitute a 'normal administrative delay', the IASB could consider providing examples of circumstances that are unacceptable and therefore would not constitute normal administrative delay in proposed new paragraph 30A.5. In these respondents' view, the circumstances might include delays that are avoidable or within the entity's control, such as delays caused by incomplete documentation.

(b) estimation techniques. A few respondents suggested the IASB provide further guidance on how to adjust the relevant exchange rate and what factors to consider. A few respondents suggested the IASB could also provide examples of acceptable estimation techniques, such as the use of economic models.

56. Some respondents commented specifically on the disclosure requirements in proposed new paragraphs 30.28–30.29:

(a) an accounting firm said the disclosure requirements should be limited to why the currency is not exchangeable and what the impact is.

(b) another accounting firm suggested developing educational material to help SMEs better understand what disclosures are required (and why) and to help them apply correct judgement, thus reducing the likelihood of disclosure deficiencies. In this respondent's view the guidance should state the nature of inputs that the SME preparer would consider in calculating the exchange rate.

(c) a standard-setter said proposed paragraph 30.28(d) could be simplified further to require only disclosure of the spot exchange rates used because the information provided in applying proposed paragraph 30.28(e) would give users sufficient information about the nature of estimated spot exchange rates.

(d) an accountancy body suggested the IASB consider developing a framework or template for disclosures to assist SMEs prepare the required disclosures without incurring excessive costs.

(e) another accountancy body suggested simplifying the disclosure requirements to focus on the most critical elements that influence financial decisions, such as the spot exchange rates used.

57. A few respondents provided drafting suggestions or comments about the location of the application guidance:

(a) a standard-setter and an accountancy body said it would be more consistent with the rest of the Accounting Standard if the term 'exchangeable' was defined in the Glossary of terms.

(b) an accountancy body suggested replacing:

   (i) the phrase 'another estimation technique (see paragraph 30A.18)' in proposed paragraph 30A.12(b) with 'an observable exchange rate in a related country (see paragraph 30A.18)'; and

   (ii) proposed paragraph 30A.18 with 'the entity may use an observable exchange rate in a country that is similar in terms of its inflation rate, adopted monetary policies and policy stability, including rates derived from foreign exchange transactions in markets or exchange rate mechanisms that do not create enforceable rights and obligations, and adjust that rate, as necessary, to achieve the objective described in paragraph 30.5A'.

(c) a standard-setter said it is not necessary to include detailed application guidance as Appendix A to Section 30. The respondent noted that the IASB has decided not to include appendices to other sections of the Standard that are being amended in the second comprehensive review (for example, Section 23 *Revenue from Contracts with Customers* and Section 12 *Fair Value Measurement*) and instead to develop educational material. In this respondent's view a similar approach would be appropriate for the proposed application guidance.

(d) an accountancy body suggested streamlining the application guidance to focus on essential elements only. This approach could include developing complementary educational materials rather than extensive appendices. In this respondent's view, such an approach would help maintain the balance between providing necessary guidance and ensuring that the guidance does not become overly burdensome for SMEs.

58. A few respondents (a standard-setter and two accountancy bodies) commented on potential simplifications—for example, to set out the factors an SME is required to consider in assessing exchangeability in a checklist format. Conversely, an accounting firm said there is insufficient evidence in practice to propose simplifications for SMEs.

### *Staff analysis*

59. Based on the feedback, we plan to recommend the IASB finalise its proposals for Section 30 in the Addendum Exposure Draft.

60. We also plan to recommend the IASB consider requests for additional guidance when it updates the *IFRS for SMEs* educational modules that support the third edition of the Standard. Educational materials could include, for example, illustrative examples (accompanying IAS 21) and the diagram in paragraph A1 of IAS 21.

61. The proposed disclosure requirements already include simplifications compared to disclosure requirements in IAS 21. In our view, further simplifications would risk providing users with incomplete information. We have considered a standard-setter's suggestion summarised in paragraph 56(c) of this paper. In our view, disclosing the spot exchange rates used *and whether they are observable exchange rates without adjustment* would not be costly for preparers, but would provide useful information.

62. At early drafting stage of the Addendum Exposure Draft we included the term 'exchangeable' in the Glossary of terms (see Appendix B to Agenda Paper 29 for the December 2023 IASB meeting). However, feedback received subsequently, indicated, that including the term in the main section of the Standard would improve understandability of the requirements.

63. We disagree with the drafting suggestions in paragraph 57(b) of this paper because they would be inconsistent with the IASB's rationale in paragraph BC34 of the Basis for Conclusions on the Addendum Exposure Draft. In particular, the IASB decided not to prescribe one particular estimation technique or approach because any one

technique or approach would be unlikely to capture all relevant factors for all possible situations without being overly burdensome. In addition, the flexible approach in estimating spot exchange rates would allow SMEs to use economic models that best suit their specific circumstances.

64. We disagree with the suggestions to include parts of the application guidance in educational modules. In our view, proposed new paragraphs 30A.1–30A.18 provide useful and sufficient guidance when read together as a set. Moving some of the guidance to educational modules would negatively affect the operability of the guidance. We have also considered including the *entire* application guidance in educational modules. However, doing so would result in application guidance being non-mandatory. In addition, the IASB will update the *IFRS for SMEs* educational modules after it has issued the third edition of the Standard. Including (parts of) application guidance in educational modules would delay SMEs access to the guidance.

65. Consequently, we plan to recommend the IASB finalise the proposed amendments as drafted in the Addendum Exposure Draft without any changes.

## Effective date and transition

66. This section analyses feedback on Question 4 in the Invitation to Comment on the Addendum Exposure Draft.

| **Question 4—Effective date and transition (proposed new paragraph A37A)** |
|---|
| The IASB proposes:<br>(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;[11]<br>(b) no transition relief in relation to the amendments to Section 7 of the Standard; and<br>(c) specific transition requirements in relation to the amendments to Section 30 of the Standard.<br>Proposed new paragraph A37A of Appendix A to the Standard sets out transition requirements for the amendments to Section 30 of the Standard. |

[11] At its July 2024 meeting, the IASB tentatively decided to set an effective date of 1 January 2027 for the third edition of the Standard.

| Question 4—Effective date and transition (proposed new paragraph A37A) |
|---|
| Paragraphs BC16–BC17 and paragraphs BC40–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals.<br>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. |

### *Effective date*

67. Almost all respondents agreed or did not disagree that the amended Section 7 of the Standard should have the same effective date as that of the third edition of the Standard for the reasons explained in the Addendum Exposure Draft. A standard-setter suggested a transition relief (no comparative information in the first year of application) and an earlier effective date of the amended Section 7 than the effective date of the third edition of the Standard, so users have access to information about supplier finance arrangements as soon as possible. Another standard-setter suggested the IASB consider a staggered implementation. However, an accountancy body said using the same effective date as that of the third edition of the Standard would simplify implementation for SMEs by allowing them to adopt all changes concurrently, facilitating better planning and resource allocation. Unified implementation helps SMEs manage changes more effectively, reducing the administrative burden and potential confusion that staggered updates might introduce.

68. All respondents agreed or did not disagree that the amended Section 30 of the Standard should have the same effective date as that of the third edition of the Standard for the reasons explained in the Addendum Exposure Draft.

69. Consequently, we plan to recommend to the IASB that the amendments to Section 7 and Section 30 of the Standard have the same effective date as that of the third edition of the Standard.

### *Transition*

70. Most respondents agreed or did not disagree with having no specific transition reliefs in relation to the amendments to Section 7 of the Standard. However, some

respondents suggested the IASB consider including the same transition reliefs as for entities applying full IFRS Accounting Standards, even if SMEs would have more time (between the issue of the third edition of the Standard and the effective date of the Standard) to provide the required information for comparative periods. Respondents said:

(a) given that SMEs generally have fewer resources and systems, and there are concerns about the availability of information in proposed paragraph 7.19C(b)(ii), the IASB should provide relief from providing comparative information for SMEs.

(b) entities applying full IFRS Accounting Standards are generally larger and more sophisticated entities than SMEs, yet they are not required to provide comparative information in the first year of application.

(c) given the purpose of the Standard is simplified accounting and disclosure requirements, SME preparers would benefit from these transition reliefs.

71. All respondents agreed or did not disagree with the specific transition requirements in relation to the amendments to Section 30 of the Standard.

72. Based on the feedback, we plan to recommend the IASB develop the same transition relief for the proposed disclosure requirements in paragraph 7.19C as for *Supplier Finance Arrangements* that amended IAS 7. In our view, this approach would not only respond to some respondents' concerns about the requirements in the Standard being costly to apply, but it would also alleviate the concerns of the many respondents about the availability of data to disclose the information required by proposed new paragraph 7.19C(b)(ii) (amounts settled by finance providers).

73. We also plan to recommend the IASB finalise with no changes the proposed transition reliefs for amendments to Section 30 of the Standard.

## Summary of potential staff recommendations to the IASB

74. Subject to drafting comments and editorial corrections in relation to the Addendum Exposure Draft, the staff plans to recommend the IASB:

(a) finalise the proposed amendments to Section 7 of the Standard with some changes as set out in Appendix A to this paper;

(b) finalise the proposed amendments to Section 30 of the Standard with no changes (see Appendix B to this paper);

(c) confirm the amended sections have the same effective date as the effective date of the third edition of the Standard (1 January 2027);

(d) include the same transition reliefs for amendments to Section 7 of the Standard as for amendments to IAS 7 (see Appendix C to this paper); and

(e) finalise the proposed transition reliefs for amendments to Section 30 of the Standard.

| Questions for the SMEIG |
|---|
| 1. Do you have any comments on the feedback summary in this paper?<br>2. The staff plans to recommend that the IASB include an impracticable exemption from the proposed requirements in paragraph 7.19C(b)(ii) of the Standard. Do you agree with the staff analysis in paragraphs 36–38 of this paper that the undue cost or effort exemption would not be operable?<br>3. Do you agree with the staff analysis in paragraph 64 of this paper that application guidance for lack of exchangeability should be included in the prospective Appendix A to Section 30 rather than non-mandatory educational modules?<br>4. Do you have any other comments or questions on our potential recommendations to the IASB (see paragraph 74 of this paper and Appendices A–C)? |

## Appendix A—staff recommended revisions to the proposed amendments to Section 7 of the Standard

A1. This Appendix includes our potential recommendations to the IASB on how to respond to feedback on the proposed amendments to Section 7 of the Standard.

A2. Text added since the Addendum Exposure Draft is underlined; text deleted since the Addendum Exposure Draft is struck through.

### Section 7
***Statement of Cash Flows***

Paragraphs 7.19B–7.19D (including their related heading) are added.

### Supplier finance arrangements

7.19B Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. <u>Examples of arrangements that are not supplier finance arrangements include:</u>

<u>(a)</u> <u>arrangements that are solely credit enhancements for an entity (such as financial guarantees including letters of credit used as guarantees); and</u>

<u>(b)</u> <u>instruments used by an entity to settle directly with a supplier the amounts owed (such as a situation in which an entity uses a credit card to settle the amount owed to a supplier and then has an obligation to pay the issuing bank instead).</u>

7.19C An entity shall disclose in aggregate for its supplier finance arrangements:

(a) the <u>key</u> terms and conditions of the arrangements (for example, <u>interest rate, fees charged,</u> extended payment terms and security or guarantees provided). However, an entity shall disclose separately the <u>key</u> terms and conditions of arrangements that have dissimilar <u>key</u> 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 entity'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 disclosed in accordance with (i) for which suppliers have already received payment from the finance providers, unless it is impracticable to do so. If it is impracticable to make this disclosure, that fact shall be stated.

(iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed in accordance with (i) and comparable trade payables that are not part of the supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed in accordance with (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or divide them into narrower ranges.

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed in accordance with (b)(i). ~~Examples of~~ These non-cash changes include the effect of business combinations, exchange differences and other transactions that do not require the use of cash or cash equivalents (see paragraph 7.18). For example, an entity that buys goods and services from suppliers would typically classify the cash outflows to settle amounts owed to its suppliers as cash outflows from operating activities. If the entity owes its suppliers an amount that becomes part of a supplier finance arrangement, the entity—having considered the terms and conditions of the arrangement—might classify the cash outflow to settle the amount owed as a cash flow from financing activities. In such a circumstance, the entity might not have reported any cash inflow from financing activities, in which case the outcome is a non-cash change in liabilities arising from financing activities.

# Appendix B—extract from the Addendum Exposure Draft for proposed amendments to Section 30 of the Standard

## Section 30
***Foreign Currency Translation***

Paragraph 30.5A (including its related heading) and paragraphs 30.28–30.29 are added.

### Estimating the spot exchange rate when a currency is not exchangeable (paragraphs 30A.12–30A.18)

30.5A If, at a measurement date, a currency is not exchangeable into another currency (as described in paragraphs 30A.2–30A.11), an entity shall estimate the spot exchange rate at that date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

…

### Disclosures

…

30.28 When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 30.5A), the entity shall disclose:

(a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;

(b) a description of affected transactions;

(c) the carrying amount of affected assets and liabilities;

(d) the spot exchange rates used and whether those rates are:

  (i) observable exchange rates without adjustment (see paragraphs 30A.13–30A.17); or

  (ii) spot exchange rates estimated using another estimation technique (see paragraph 30A.18); and

(e) information about the estimation process, including qualitative and quantitative information about the inputs and assumptions used.

30.29 When a foreign operation's functional currency is not exchangeable into an entity's presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, the entity shall disclose:

(a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;

(b) summarised financial information about the foreign operation; and

(c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.

Appendix A to Section 30 is added.

## Appendix A to Section 30
## Application guidance

*This application guidance is an integral part of Section 30.*

### Exchangeability

30A.1 The purpose of this application guidance is to help entities assess whether a currency is exchangeable (see paragraphs 30A.2–30A.11) and estimate the spot exchange rate when a currency is not exchangeable (see paragraphs 30A.12–30A.18).

#### Step I: Assessing whether a currency is exchangeable

30A.2 A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. An entity assesses whether a currency is exchangeable into another currency:

(a) at a measurement date; and

(b) for a specified purpose.

30A.3 If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

30A.4 An entity might determine that a currency is not exchangeable into another currency, even though that other currency might be exchangeable in the other direction. For example, an entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

#### Time frame

30A.5 A spot exchange rate is the exchange rate for immediate delivery. However, an exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on the facts and circumstances surrounding the exchange transaction.

### Ability to obtain the other currency

30A.6 In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency (either directly or indirectly), instead of its intention or decision to do so. For example, subject to the other requirements in paragraphs 30A.2–30A.11, regardless of whether the entity intends or decides to obtain currency PC, currency LC is exchangeable into currency PC if the entity is able either (directly) to exchange LC for PC, or (indirectly) to exchange LC for another currency (FC) and then exchange FC for PC.

### Markets or exchange mechanisms

30A.7 In assessing whether a currency is exchangeable into another currency, an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. Enforceability is a matter of law. Whether an exchange transaction in a market or exchange mechanism would create enforceable rights and obligations depends on the facts and circumstances surrounding the exchange transaction.

### Purpose of obtaining the other currency

30A.8 Exchange rates might vary depending on how the currency is to be used. For example, the relevant authorities of a jurisdiction might set a preferential exchange rate for imports of specific goods and a 'penalty' exchange rate for dividend payments to other jurisdictions.

30A.9 Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which an entity obtains (or hypothetically might need to obtain) the other currency. In assessing exchangeability, an entity shall assume its purpose in obtaining the other currency is:

(a) to realise or settle individual foreign currency transactions, assets or liabilities when the entity reports foreign currency transactions in its functional currency (see paragraphs 30.6–30.11 and 30.14–30.16).

(b) to realise or settle its net assets or net liabilities when the entity uses a presentation currency other than its functional currency (see paragraphs 30.17–30.21). The entity's net assets might be realised by, for example, the payment of dividends to its shareholders or disposal of the investment in the entity by its shareholders.

(c) to realise or settle its net investment in the foreign operation when the entity translates the results and financial position of a foreign operation into a presentation currency (see paragraphs 30.22–30.23). The entity's net investment in a foreign operation might be realised by, for example, receipt of dividends from the foreign operation or disposal of the investment in the foreign operation.

30A.10 An entity shall assess whether a currency is exchangeable into another currency separately for each purpose specified in paragraph 30A.9.

**Ability to obtain only limited amounts of the other currency**

30A.11 A currency is not exchangeable into another currency at the measurement date if, for a purpose specified in paragraph 30A.9, an entity is able to obtain no more than an insignificant amount of the other currency. For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

### Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraph 30.5A)

30A.12 This Standard does not specify how an entity estimates the spot exchange rate when a currency is not exchangeable. In estimating the spot exchange rate to meet the objective in paragraph 30.5A, an entity is permitted to use either:

(a) an observable exchange rate without adjustment (see paragraphs 30A.13–30A.17); or

(b) another estimation technique (see paragraph 30A.18).

**Using an observable exchange rate without adjustment**

30A.13 Examples of an unadjusted observable exchange rate include:

(a) a spot exchange rate for a purpose other than that for which an entity assesses exchangeability (see paragraphs 30A.14–30A.15); and

(b) the first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate) (see paragraphs 30A.16–30A.17).

*Using an observable exchange rate for another purpose*

30A.14 A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an entity might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the entity might conclude that an observable exchange rate for another purpose meets the objective described in paragraph 30.5A.

30A.15 An observable exchange rate for another purpose might not reflect the prevailing economic conditions when, for example:

(a) it includes an ‘incentive’ or ‘penalty’ set to encourage, or deter, entities from obtaining the other currency for particular purposes;

(b) an entity is able to obtain the other currency only for limited purposes (such as to import emergency supplies);

(c) it is set through regular interventions by the relevant authorities; or

(d) it is unchanged over time instead of being updated daily (or even more frequently).

*Using the first subsequent exchange rate*

30A.16 A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for that purpose. In such situations, an entity might conclude that the first subsequent exchange rate meets the objective described in paragraph 30.5A.

30A.17 The first subsequent exchange rate might not reflect the prevailing economic conditions when, for example:

(a) the date at which exchangeability is restored is long after the measurement date; or

(b) an economy is subject to hyperinflation or high inflation and prices often change quickly, perhaps several times a day.

**Using another estimation technique**

30A.18 An entity using another estimation technique is permitted to use any observable exchange rate—including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations—and adjust that rate, as necessary, to meet the objective described in paragraph 30.5A.

## Appendix C— staff recommended revisions to the proposed transition requirements

C1. This Appendix includes our potential recommendations to the IASB on how to respond to feedback relating to transition requirements.

C2. This Appendix includes our recommended revisions to the proposed amendments to Appendix A *Effective date and transition* of the *IFRS for SMEs* Accounting Standard.

C3. Text added since the Addendum Exposure Draft is underlined.

### Appendix A
### Effective date and transition

*This appendix is an integral part of the Standard.*

| |
|---|
| Paragraphs A2A and A37A are added. New text since the Addendum Exposure Draft is underlined. |

### Effective date

…

### Transition

…

#### <u>Supplier finance arrangements</u>

<u>A2A</u> <u>In applying paragraphs 7.19B–7.19C, an entity is not required to disclose:</u>

(a) <u>comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those paragraphs.</u>

(b) <u>the information otherwise required by paragraph 7.19C(b)(i)–(ii) as at the beginning of the annual reporting period in which the first applies those paragraphs.</u>

#### Foreign currency translation

…

A37A In applying paragraph 30.5A, an entity shall not restate comparative information. Instead:

(a) when the entity reports foreign currency transactions in its functional currency, and, at the date of initial application, concludes that its functional currency is not exchangeable into the foreign currency or, if applicable, the foreign currency is not exchangeable into its functional currency, the entity shall at the date of initial application:

(i) translate affected foreign currency monetary items, and non-monetary items measured at fair value in a foreign currency, using the estimated spot exchange rate at that date; and

(ii) recognise any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings.

(b) when the entity uses a presentation currency other than its functional currency, or translates the results and financial position of a **foreign operation**, and, at the date of initial application, concludes that its functional currency (or the foreign operation's functional currency) is not exchangeable into its presentation currency or, if applicable, its presentation currency is not exchangeable into its functional currency (or the foreign operation's functional currency), the entity shall at the date of initial application:

(i) translate affected assets and liabilities using the estimated spot exchange rate at that date;

(ii) translate affected equity items using the estimated spot exchange rate at that date if the entity's functional currency is hyperinflationary; and

(iii) recognise any effect of initially applying the amendments as an adjustment to the cumulative amount of translation differences—accumulated in a separate component of equity.

…

## Appendix D—analysis of other comments

D1. The following table summarises respondents' other comments together with our analysis and conclusions.

| **Respondents' comments and suggestions** | **Staff analysis and conclusions** |
|---|---|
| To require the presentation of cash flows from operating activities using both, direct and indirect method. | *We recommend no action.*<br><br>This suggestion is outside the scope of the Addendum Exposure Draft. |
| In a respondent's view, the term 'monetary item' is defined in Section 30 of the Standard, but there is no commentary on the concept of non-monetary items in the Standard. The respondent recommends that the IASB elaborate on the term in the educational material based on paragraph 16 of IAS 21. | *We recommend no action.*<br><br>Further guidance and examples of monetary and non-monetary items are already provided in pages 16–17 of Module 30 *Foreign Currency Translation* of the *IFRS for SMEs* educational material.<br><br>The IASB has also discussed guidance on determining when an item is monetary or non-monetary in paragraphs 6–16 in Agenda Paper 30C for the March 2024 IASB meeting. |
| The IASB should ensure that there is another stakeholder engagement to assess the effects of | *We recommend no action* |

| | |
|---|---|
| any amendments resulting from the Addendum Exposure Draft. | *See paragraphs 6–7 of this paper for outreach undertaken.* |
| The disclosures required by paragraph 7.19 relate to financial instruments. It would be more intuitive to find these disclosure requirements in Section 11 *Basic Financial Instruments* rather than in Section 7 of the Standard. | *We recommend no action.*<br><br>We think including prospective requirements in Section 7 of the Standard would be consistent with the location of *Supplier Finance Arrangements* in full IFRS Accounting Standards (see IAS 7). This might help users navigate and compare requirements in the Standard with the requirements in IAS 7. |
| Align the wording of prospective requirements with the wording in full IFRS Accounting Standards. | *We recommend no action*<br><br>Based on the feedback, we think the proposals are understandable and the simplified wording is unlikely to result in inconsistent application between entities applying full IFRS and those applying the *IFRS for SMEs* Accounting Standard. |