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Practitioner Advisory Group
Issue Paper

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Addendum to the *IFRS for SMEs* Accounting Standard

Summary	The paper describes the likely content of an addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard.
Purpose/Objective of the paper	The paper describes the likely content of an addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard, which is expected to cover supplier finance arrangements and lack of exchangeability. The objective of the paper is to seek feedback from the PAG about the likely relevance of the additional guidance to NPOs.
Other supporting items	
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Actions for this meeting	**Advise on**: i. the relevance of supplier finance arrangements to NPOs and the most significant issues; and ii. whether lack of exchangeability is a significant issue for NPOs, and if so why.

CIPFA The Chartered Institute of Public Finance & Accountancy

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Addendum to the IFRS for SMEs Accounting Standard

1. Introduction

1.1 The International Accounting Standards Board (IASB) published the Exposure Draft for the Third edition of the *IFRS for SMEs* Accounting Standard in September 2022, planning to finalise the revised standard by the end of 2024.

1.2 Since this Exposure Draft was issued the IASB has tentatively decided to amend the scope of the draft standard to include amendments that have been made to full IFRS Accounting Standards. These relate to supplier finance arrangements and lack of exchangeability.

1.3 In order to consult on these amendments the IASB plans to issue an addendum to the Exposure Draft for the Third edition of the *IFRS for SMEs* Accounting Standard. It will include amendments to Section 7 *Statement of Cashflows* and Section 30 *Foreign currency translation*. This addendum is expected to be issued in March 2024, with an exposure period most likely for 120 days.

1.4 The TAG will be consulted on whether to include the additional material in Exposure Draft 3, which would mean that all of the potential guidance in Third edition of the *IFRS for SMEs* Accounting Standard has been exposed. It will also consider whether any adaptations are needed to ensure that this additional material is relevant for NPOs.

2. Supplier finance

2.1 The amendments proposed have the aim of improving the information that entities provide about supplier finance arrangements. In particular the amendments were intended to assist in assessing how supplier finance arrangements affect an entity's liabilities and cashflows and to understand their effect on liquidity risk.

2.2 Supplier finance arrangement are characterised in the proposed changes by one or more finance providers offering to pay the amounts owed to the suppliers of an entity in line with the agreed terms. These arrangements therefore provide extended payment terms for the entity. It allows entities to settle invoice amounts at a later date beyond normal terms.

2.3 If these proposals are adopted in INPAG as currently drafted, the proposals would require NPOs to disclose the:

a. terms and conditions of any supplier finance arrangements in place, separating arrangements that have dissimilar terms and conditions;
b. carrying amount at the beginning and end of the financial reporting period of the financial liabilit8ies that are part of a supplier finance arrangement, identifying the amount that has been paid to suppliers by the finance provider;
c. range of payment dates for both the financial liabilities disclosed and comparable trade payables, with an explanatory information if the range of payment dates is wide; and
d. type and effect of non-cash changes in the carrying amount of the financial liabilities disclosed, for example, due to changes in exchange rates.

2.4 The IASB staff recognise that some of these disclosure requirements might not be appropriate for smaller entities and could be reduced at a later stage. However, it is useful to consider the type of information that might be disclosed.

2.5 Many NPOs will be dependent on grants and donations, but some will be dependent on invoiced amounts to fund its activities. It is not clear whether NPOs are likely to use such financing mechanisms, particularly as there will be costs involved.

Question 1: What are PAG members' views on the frequency of use of supplier finance arrangements to NPOs and their significance?

Question 2: If supplier finance arrangements are used, what type of information is it appropriate to disclose?

3. Lack of exchangeability

3.1 Amendments made to full IFRS standards are intended to ensure a consistent approach to determining if a currency is exchangeable into another currency and the spot exchange rate to use when it is not. This information is also considered relevant for smaller entities.

3.2 If these proposal are adopted in INPAG, NPOs would be required where a currency is not exchangeable to:

a. Estimate the spot exchange rate to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions;
b. Disclose the following when an estimated spot rate has been used due to lack of exchangeability:
   i. The currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
   ii. A description of the affected transactions

iii. The carrying amount of affected assets and liabilities
iv. The spot rates used and whether they are observable with or without adjustment
v. The estimation process

c. Disclose the following when a foreign operations functional currency is not exchangeable into an entity's presentation currency or vice versa
i. name of a foreign operation, its relationship with the entity and its principle place of business
ii. summarised financial information about the foreign operation; and
iii. the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation

3.3 The IASB has developed application which could be used if the proposal are adopted in INPAG. This includes guidance on assessing whether a currency is exchangeable or not and the estimation of a spot rate where it is not.

3.4 In introducing these requirements restatement of comparative information is not required, but additional procedures are required at the date of initial application. If adopted into INPAG this will need to be reflection in Section 38 *Transition to INPAG.*

3.5 Based on previous discussions foreign currency translation is a frequent requirement of NPOs. However, lack of exchangeability has not been raised as a significant issue to date. These proposals provide helpful guidance where this problem exists, but their prominence in INPAG need to be proportionate to the significance of the issue for NPOs.

Question 3: What are PAG members' views on the frequency of lack of exchangeability as an issue and its significance?

Question 4: If lack of exchangeability is an issue for NPOs what are PAG members' views on the possible practical impacts arising from this guidance?

4. Next steps

4.1 The views of PAG members will be shared with the TAG as part of their considerations in relation to the addendum.

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