



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED17-02

27 February 2024 – Virtual

## Addendum to the *IFRS for SMEs* Accounting Standard

Summary	This paper describes the likely content of an addendum to the draft Third edition of the <i>IFRS for SMEs</i> Accounting Standard.
Purpose/Objective of the paper	The paper describes the likely content of an addendum to the draft Third edition of the <i>IFRS for SMEs</i> Accounting Standard, which is expected to cover supplier finance arrangements and lack of exchangeability. The objective of this paper is to seek feedback from the TAG about the inclusion of this addendum as additional guidance for NPOs.
Other supporting items	<a href="#">IASB Board paper</a>
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Actions for this meeting	<b>Advise on</b> the proposals for the inclusion of the addendum: <ul style="list-style-type: none"><li>i. for supplier finance arrangements;</li><li>ii. for lack of exchangeability.</li></ul>

# Technical Advisory Group

## 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 this comprehensive review to include amendments to full IFRS Accounting Standards for supplier finance arrangements and lack of exchangeability.
- 1.3 As a consequence the IASB plans to issue an addendum to the Exposure Draft for the Third edition of the *IFRS for SMEs Accounting Standard*, with amendments to Section 7 *Statement of Cashflows* and Section 30 *Foreign currency translation*. This addendum is expected to be exposed for feedback in March 2024, with an exposure period most likely for 120 days.
- 1.4 Including the addendum with the scope of INPAG would retain alignment with the Third edition of the *IFRS for SMEs Accounting Standard*, which has been one of the key principles in developing INPAG. Given the expected timing of the release of this addendum, it could be included in Exposure Draft 3. Consideration needs to be given to the extent that that this additional guidance is relevant or useful for NPOs.
- 1.5 The drafting of the addendum has not yet been finalised. The latest public draft can be found [here](#).

### 2. Supplier finance

- 2.1 Amendments were made by the IASB to IAS 7 and IFRS 7 in May 2023 with 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. The IASB believe that information on such arrangements is also relevant for SMEs.
- 2.2 Supplier finance arrangements 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, allowing them to make the cash payments to satisfy the invoices at a later date.

- 2.3 If adopted, the proposals would require those using the *IFRS for SMEs* Accounting Standard 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 liabilities 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 SMEs and could be reduced at a later stage.
- 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. This was discussed recently with the PAG. In their experience supplier finance arrangements and indeed any kind of debt factoring is uncommon. This additional text may therefore not be relevant to many SMEs.
- 2.6 As noted in 1.4, alignment with the *IFRS for SMEs* Accounting Standard has been a key principle for the development of INPAG, with a protocol developed for any departures. There is precedent for not including text where the view is that the text is not relevant to NPOs (share based payments). However, we do not have an extensive understanding of the relevance of this guidance to NPOs as yet. As a consequence it is proposed to include the text as part of ED3 (as long as it is published in sufficient time for its inclusion), with a question about the extent to which it is applicable and if so, seek feedback on the disclosures proposed.

**Question 1:** Do TAG members agree with the proposed approach?

### 3. Lack of exchangeability

- 3.1 Amendments were made by the IASB to IAS 21 in August 2023 with the aim of improving the information provided to the users of financial statements about lack of exchangeability. The amendments 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. The IASB believe that such information is also relevant for SMEs.

- 3.2 If adopted, the proposals would amend Section 30 and require those using the *IFRS for SMEs* Accounting Standard 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 no 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 operation's functional currency is not exchangeable into an entity's presentation currency or vice versa
    - i. name of the 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 There are also some consequential impacts of these proposal relating to the definition of 'exchangeable' and 'severe hyperinflation'. The IASB are also considering changes to educational materials to support the implementation of these amendments.
- 3.4 The IASB are also proposing a significant amount of application guidance for these proposals that are focused on the assessment of whether a currency is exchangeable or not. For example, to assess whether a currency is exchangeable, consideration of the following is required:
- a. whether the inability to exchange works in both directions;
  - b. the time frame over which an exchange cannot take place (to exclude for example bank holidays);
  - c. the practical rather than theoretical ability to obtain another currency;
  - d. whether it is a market or mechanism that would create enforceable rights and obligations;
  - e. the purpose of exchanging the currency (where there might be preferential or penalty exchange rates in a jurisdiction), in which case the following purpose is assumed



- i. to realise or settle individual transactions when reporting in a functional currency
  - ii. to realise or settle net assets or liabilities when using a presentational currency other than its functional currency
  - iii. to realise or settle its net investment in a foreign operation when its results and financial position are translated into the functional currency
- f. whether the ability to obtain the other currency is limited.
- 3.5 The application guidance also covers the estimation of a spot rate where a currency is not exchangeable. This includes the adjustments that might be made to an observable exchange rate.
- 3.6 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 also need to be reflected in Section 38 *Transition to INPAG*. Taken together this creates quite a large amount of additional guidance.
- 3.7 Foreign currency translation has been a frequently raised topic by NPOs, but lack of exchangeability has not been suggested as a significant issue. The proposals for the changes to Section 30 were discussed with the PAG. Many members provided feedback that this is something frequently encountered by NPOs, but none were of the view that it was an issue for NPOs.
- 3.8 The inclusion of these proposals in INPAG needs to be proportionate to the significance of the issue for NPOs, which the PAG advise is non-existent. Although it has not surfaced as an issue to date, it is important to establish the usefulness of additional guidance. As a consequence, as with the additional guidance on supplier finance arrangements, it is proposed to include the text as part of ED3 (as long as it is published in sufficient time for its inclusion). A specific matter for comment will focus on the usefulness of the guidance and seek feedback on the disclosures proposed.

**Question 2:** Do TAG members have any comments on the proposed approach?

#### 4. Next steps

- 4.1 We await the final text from the IASB. Subject to timing it will be included in ED3 and a basis for conclusions developed to reflect the TAG discussions.

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