Addendum to the Exposure Draft

Third edition of the IFRS for SMEs *Accounting Standard*

March 2024

Comment template

Invitation to comment

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

(a) respond to the questions as stated;

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

(c) contain a clear rationale;

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

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

Instructions for completion

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

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

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

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

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

Name of Respondent:	**The South African Institute of Chartered Accountants (SAICA)**
Organisation:	**The South African Institute of Chartered Accountants (SAICA)**
Jurisdiction:	**South Africa**
Correspondence and/or email address:	

Question	**Response** (*Please give clear reasoning to support your response*)
Question 1 — Supplier finance arrangements — Scope and disclosure requirements (proposed new paragraphs 7.19B–7.19C) Proposed new paragraph 7.19B describes the characteristics of an arrangement about which an SME would be required to disclose the information described in this exposure draft. Paragraph 7.19B also sets out examples of the various forms of such arrangements that would be within the scope of the proposals. The IASB proposes an SME disclose in aggregate for its supplier finance arrangements: (a) the terms and conditions (but disclosing separately the terms and conditions of arrangements with dissimilar terms and conditions); (b) as at the beginning and end of the reporting period: (i) the carrying amounts, and associated line items presented in the SME's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement; (ii) the carrying amounts, and associated line items, of the financial liabilities required to be disclosed (as described in the preceding subparagraph) for which suppliers have already received payment from the finance providers; and (iii) the range of payment due dates for both the financial liabilities that would be	We are in support of the proposed amendments to Section 7. However, we have noted that much of the commentary included in the Basis for Conclusions on Exposure Draft Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard, contains guidance that would be useful to an SME in understanding and applying the new disclosure requirements. In particular, paragraph BC 6 provides important application guidance which we believe would be essential in understanding when some finance arrangements that have some, but not all, of the characteristics of supplier finance arrangements (SFAs), and for this reason we recommend that the Board should include paragraph BC6 into the main body of the Standard as the examples add value

Question	Response (*Please give clear reasoning to support your response*)
required to be disclosed (as described in (i)) and comparable trade payables that are not part of the supplier finance arrangement; and (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities that would be required to be disclosed (as described in (b)(i)). Paragraphs BC1–BC12 of the Basis for Conclusions explain the IASB's rationale for these proposals. **Do you have comments or suggestions on the proposed amendments to Section 7? Please explain the reasons for your suggestions.**	and clarify the scope of the disclosure requirements in more detail. We also note that this would be consistent with the full IFRS amendment in paragraph 44G of IAS 7. We further recommend that the additional explanatory examples from paragraph BC9(f) be included in the educational material, where SMEs are expected to become accustomed to looking for further guidance in applying the requirements of the Standard, as our experience is that very few SMEs tend to refer to the Basis for Conclusions in practice We also think that some additional examples of the types of dissimilar terms and conditions that would require disaggregated disclosure, as required by the proposed paragraph 7.19C(a) would be helpful, since our understanding is that while SFAs are prevalent amongst SMEs, the precise terms and conditions of these may differ significantly. We recommend that such examples be included in the educational material.
Question 2 — Supplier finance arrangements — Costs of applying proposed new paragraph 7.19C(b)(ii)	We note that SFAs can be material for some SMEs, and therefore we agree that the benefits for the users of affected SMEs' financial statements will outweigh the potential costs for

Question	Response (*Please give clear reasoning to support your response*)
Some stakeholders informed the IASB that some information about supplier finance arrangements might not be readily available and might be costly to obtain. In particular, information about the carrying amounts, and associated line items, of the financial liabilities that are part of such arrangements and for which suppliers have already received payment from the finance providers (proposed new paragraph 7.19C(b)(ii)) might not be readily available. Paragraphs BC13–BC15 of the Basis for Conclusions provide information about the potential costs of complying with the proposed disclosure requirement and explain the IASB's rationale for this proposal. **Do you agree that the benefits for users of SMEs' financial statements would outweigh the potential costs for SMEs to provide the information required by proposed new paragraph 7.19C(b)(ii)? Please explain the reasons for your view.**	SMEs to provide the information required by the proposals as the information required should be readily available from internal sources of information or from the financial institutions with whom the SFAs have been concluded and we do not foresee significant additional costs to obtain the information about supplier finance arrangements. However, some members observed that SMEs may have several SFAs which may be material for the entity when considered in aggregate, but which may not necessarily all be considered material individually. These members noted that obtaining the disaggregated detailed information required by the proposed new paragraph 7.19C(b)(ii) for such immaterial SFAs might prove unnecessarily burdensome and costly for relatively little incremental benefit to the users of the financial statements. Therefore, we recommend that the proposed paragraph 7.19C be applicable to apply in aggregate only to material SFAs, thereby resulting in individually immaterial SFAs being excluded from the overall SFA disclosure requirements.
Question 3 — Lack of exchangeability (proposed new paragraphs 30.5A, 30.28–30.29 and 30A.1–30A.18)	We agree with the proposed amendments.

Question	Response (*Please give clear reasoning to support your response*)
Section 30 of the *IFRS for SMEs* Accounting Standard generally requires the use of a spot exchange rate when an SME reports foreign currency transactions or a foreign operation's results and financial position in its financial statements. However, it does not specify the exchange rate to use when there is a lack of exchangeability between two currencies. To address this deficiency, the IASB proposes to amend Section 30 of the Standard: (a) to specify when a currency is exchangeable into another currency; (b) to set out the factors an SME is required to consider in assessing exchangeability and to specify how those factors affect the assessment; (c) to specify how an SME determines the spot exchange rate when a currency is not exchangeable into another currency; and (d) to require an SME to disclose information that would enable users of its financial statements to understand how a lack of exchangeability between two currencies affects, or is expected to affect, its financial performance, financial position and cash flows. Paragraphs 30A.1–30A.11 of [draft] Appendix A to Section 30 of the Standard set out the factors an SME would be required to consider in assessing exchangeability and specify how those factors would affect the assessment. Paragraphs 30A.12–30A.18 of [draft] Appendix A to Section 30 of the Standard provide application guidance that would help an SME estimate the spot exchange rate when a currency is not exchangeable into another currency. Paragraphs BC18–BC39 of the Basis for Conclusions explain the IASB's rationale for these proposals. **Do you have comments or suggestions on the proposed amendments to Section 30? Please explain the reasons for your suggestions.**	We note that this could be an area of significant judgement for SMEs who are affected by a lack of exchangeability in relation to a particular currency, and therefore recommend that the Board includes additional illustrative examples in the educational material which should also include the thought process that could guide the preparers considering that, theoretically, the process is fairly easy to follow, however, in practice, there could be a wide array of approaches, which might compromise consistency in the application of judgement. Some of our members also recommended that more guidance be provided as to what should be included in the models and methods of estimation or alternatively would it be acceptable to use the spot rate and explain that it's not exchangeable. Additional comment: While not arising specifically from the proposed amendments, in debating the proposals, some members noted that the term "monetary item" is defined in Section 30, but that there is no further commentary on the concept of non-monetary items in the Standard. It was noted that paragraph 16 of IAS 21 provides further elaboration on the definition of monetary item,

Question	Response (*Please give clear reasoning to support your response*)
Do you agree that the proposals in paragraphs 30A.1–30A.18 of [draft] Appendix A to Section 30 would provide sufficient application guidance for SMEs? If you disagree with these proposals, please explain what you would suggest instead and why.	and we recommend that the Board elaborate on the term in the educational material.
Question 4 — Effective date and transition (proposed new paragraph A37A) The IASB proposes: (a) that the amended Section 7 and Section 30 of the *IFRS for SMEs* Accounting Standard have the same effective date as that of the third edition of the Standard;[1] (b) no transition relief in relation to the amendments to Section 7 of the Standard; and (c) specific transition requirements in relation to the amendments to Section 30 of the Standard. Proposed new paragraph A37A of Appendix A to the Standard sets out transition requirements for the amendments to Section 30 of the Standard. Paragraphs BC16–BC17 and paragraphs BC40–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals. **Do you agree with these proposals? Why or why not? If you disagree with these proposals, please explain what you would suggest instead and why.**	We agree with the proposals.

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