



iGAAP in Focus

Financial reporting

IASB proposes addendum to exposure draft *Third edition of the IFRS for SMEs Accounting Standard*

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This *iGAAP in Focus* outlines the proposed amendments to the *IFRS for SMEs Accounting Standard* set out in exposure draft *Addendum to the Exposure Draft Third Edition of the IFRS for SMEs Accounting Standard* ("addendum ED") published by the International Accounting Standards Board (IASB) on 28 March 2024.

- The IASB proposes further amendments to the *IFRS for SMEs* standard as part of its second comprehensive review of the standard
- In particular, the IASB proposes amendments to:
 - Section 7 *Statement of Cash Flows* to align with the amendments to IAS 7 *Statement of Cash Flows* for supplier finance arrangements
 - Section 30 *Foreign Currency Translation* to align with the amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* for lack of exchangeability
- In addition, the IASB proposes:
 - that the amended Section 7 and Section 30 have the same effective date as that of the third edition of the standard
 - no transition relief in relation to the amendments to Section 7
 - specific transition requirements in relation to the amendments to Section 30
- The comment period for the ED ends on 31 July 2024.

For more information please see the following websites:

www.iasplus.com

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Background

In September 2022, the IASB published exposure draft *Third Edition of the IFRS for SMEs Accounting Standard* ("original ED"). For the original ED, the IASB had considered alignment with full IFRS Accounting Standards that are effective on or before 1 January 2020.

During the redeliberation of the proposals in the original ED, the IASB also assessed all amendments to full IFRS Accounting Standards with an effective date after 1 January 2020 to assess whether any of these should be included in the final amendments to the *IFRS for SMEs* standard. The IASB found that this was the case for the amendments to IAS 7 for supplier finance arrangements and to IAS 21 for lack of exchangeability.

To consult on these additional proposed amendments, the IASB developed an addendum to the original ED.

Proposed amendments

Supplier finance arrangements

In Section 7 of the *IFRS for SMEs* standard, the IASB proposes to add a description of the characteristics of the supplier finance arrangements about which small and medium-sized entities (SMEs) would be required to disclose the information described in the addendum ED. The proposed amendments would also introduce examples of the various forms of such arrangements.

The IASB proposes that SMEs would be required to disclose in aggregate for its supplier finance arrangements:

- the terms and conditions of the arrangements (but disclosing separately the terms and conditions of arrangements with dissimilar terms and conditions)
- as at the beginning and end of the reporting period:
 - 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
 - the carrying amounts, and associated line items, of the financial liabilities that are part of a supplier finance arrangement for which suppliers have already received payment from the finance providers
 - the range of payment due dates for both the financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of the supplier finance arrangement
- the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement.

Observation

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 might not be readily available. However, other stakeholders, particularly users of financial statements, informed the IASB that, without that proposed requirement, an entity would disclose incomplete information that would fail to satisfy users' information needs.

The IASB evaluated the costs and benefits for preparers and users of financial statements and concluded that the benefits for users of having the information would outweigh the potential costs for preparers of providing this information. The IASB has decided to ask a specific question in the addendum ED to help evaluate the costs and benefits of the proposed requirement for SMEs and users of their financial statements.

Lack of exchangeability

Section 30 of the *IFRS for SMEs* standard generally requires the use of a spot exchange rate when SMEs report 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:

- to specify when a currency is exchangeable into another currency
- to set out the factors SMEs are required to consider in assessing exchangeability and to specify how those factors affect the assessment
- to specify how SMEs determine the spot exchange rate when a currency is not exchangeable into another currency
- to require SMEs 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.

The IASB also proposes to introduce an appendix to Section 30 to set out the factors SMEs would be required to consider in assessing exchangeability and specify how those factors would affect the assessment. The appendix would also provide application guidance to help SMEs in estimating the spot exchange rate when a currency is not exchangeable into another currency.

Transition, effective date and comment period

The IASB proposes:

- that the amended Section 7 and Section 30 have the same effective date as that of the third edition of the standard
- no transition relief in relation to the amendments to Section 7
- specific transition requirements in relation to the amendments to Section 30, set out in the proposed appendix

The comment period for the ED ends on 31 July 2024.

Further information

If you have any questions about the addendum ED, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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