



March 2024

## **Exposure Draft**

*IFRS for SMEs<sup>®</sup> Accounting Standard*

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### **Addendum to the Exposure Draft**

*Third edition of the IFRS for SMEs Accounting Standard*

Comments to be received by 31 July 2024

## **Exposure Draft**

### **Addendum to the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard***

*Comments to be received by 31 July 2024*

Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs* Accounting Standard is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 31 July 2024 and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

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ADDENDUM TO THE EXPOSURE DRAFT THIRD EDITION OF THE IFRS FOR SMES ACCOUNTING  
STANDARD

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## Introduction

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### Why is the IASB publishing this exposure draft?

- IN1 The International Accounting Standards Board (IASB) published the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* in September 2022 (2022 Exposure Draft).
- IN2 At its September 2023 meeting, the IASB discussed the project plan for redeliberating the proposals in the 2022 Exposure Draft. The IASB confirmed that, based on the feedback on the Second Comprehensive Review of the *IFRS for SMEs Accounting Standard*, the scope of that review should be as proposed in the 2022 Exposure Draft, which was to consider alignment with full IFRS Accounting Standards that are effective on or before 1 January 2020.<sup>1</sup>
- IN3 Nevertheless, the IASB reviewed all amendments to full IFRS Accounting Standards with an effective date after 1 January 2020 and assessed whether the scope of the Second Comprehensive Review should be extended to include any of these amendments. In making this assessment, the IASB considered the needs of users of SMEs' financial statements and feedback from the SME Implementation Group (SMEIG) that *Supplier Finance Arrangements* and *Lack of Exchangeability* are relevant to SMEs.<sup>2,3</sup> The IASB noted that the feedback on developing amendments to full IFRS Accounting Standards for supplier finance arrangements and lack of exchangeability also applies to SMEs.
- IN4 Consequently, the IASB decided to extend the scope of the Second Comprehensive Review and it proposes amendments to the *IFRS for SMEs Accounting Standard* to align:
- (a) Section 7 *Statement of Cash Flows* with IAS 7 *Statement of Cash Flows*, as amended by *Supplier Finance Arrangements*; and
  - (b) Section 30 *Foreign Currency Translation* with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, as amended by *Lack of Exchangeability*.

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1 The Second Comprehensive Review considers alignment with the requirements in full IFRS Accounting Standards that were effective at the publication date of the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*. The Request for Information was published in January 2020.

2 The SME Implementation Group (SMEIG) advises the IASB on implementing and applying the Standard. Members of the SMEIG are appointed by the Trustees of the IFRS Foundation after a public call for nominations. The SMEIG normally includes accountants working in SMEs, auditors in small or medium-sized public practices, bank lenders and other users of the financial statements of SMEs.

3 In this exposure draft, the term 'SMEs' refers to entities that are eligible to apply the *IFRS for SMEs Accounting Standard* (that is, SMEs are entities that do not have public accountability and that publish general purpose financial statements for external users).

### Proposals in this exposure draft

- IN5 The proposals in this exposure draft supplement those in the 2022 Exposure Draft to amend the requirements in the *IFRS for SMEs Accounting Standard*. The supplementary amendments would require an SME:
- (a) to disclose for its supplier finance arrangements:
    - (i) their terms and conditions;
    - (ii) the amount of the liabilities that are part of the arrangements, disclosing separately the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities are presented in the statement of financial position;
    - (iii) the range of payment due dates; and
    - (iv) the type and effect of non-cash changes; and
  - (b) to apply a consistent approach in:
    - (i) assessing whether a currency can be exchanged into another currency; and
    - (ii) estimating the exchange rate to use (and the disclosures to provide) when a currency cannot be exchanged into another currency.
- IN6 The proposed amendments to Section 7 of the *IFRS for SMEs Accounting Standard* respond to users' concerns that information about some supplier finance arrangements is not sufficiently transparent in SMEs' financial statements, hindering users' analysis. The proposed amendments are intended to enable users to obtain the information that they need to understand the effects of supplier finance arrangements on an SME's financial statements and to compare one SME with another.
- IN7 The proposed amendments to Section 30 of the *IFRS for SMEs Accounting Standard* respond to stakeholder feedback and concerns about diversity in determining whether a currency can be exchanged into another currency and, when it cannot, in estimating the exchange rate to use. The IASB expects the proposed amendments to help SMEs and the users of their financial statements by addressing these matters—they are not covered in the current edition of the Standard.

### Who would be affected by the proposals?

- IN8 The proposed amendments to Section 7 of the *IFRS for SMEs Accounting Standard* would affect an SME that, as a buyer, enters into one or more supplier finance arrangements (as described in the proposals), under which the SME, or its suppliers, can access financing for amounts the SME owes its suppliers.
- IN9 The proposed amendments to Section 30 of the *IFRS for SMEs Accounting Standard* would affect an SME:

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- (a) that has transactions in non-exchangeable foreign currencies;
- (b) that has a foreign operation with a non-exchangeable functional currency; or
- (c) whose presentation or functional currency is non-exchangeable.

**Next steps**

- IN10 The IASB will consider the comments it receives on the proposals in this exposure draft and will decide whether to proceed with the proposed amendments to the *IFRS for SMEs* Accounting Standard.
- IN11 The IASB plans to include any resulting amendments in the third edition of the *IFRS for SMEs* Accounting Standard.

## Invitation to comment

The IASB invites comments on the proposals in this exposure draft, 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.

The IASB requests that comments are confined to the proposals in this exposure draft.

Respondents need not answer all the questions in this invitation to comment.

## Questions for respondents

### 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 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.

**Question 2 – Supplier finance arrangements – Costs of applying proposed new paragraph 7.19C(b)(ii)**

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.

**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 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.

*continued...*

...continued

Do you have comments or suggestions on the proposed amendments to Section 30? Please explain the reasons for your suggestions.

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.

**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;<sup>4</sup>
- (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.

## Deadline

The IASB will consider all written comments received by 31 July 2024.

## How to comment

Please submit your comments electronically:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at [commentletters@ifrs.org](mailto:commentletters@ifrs.org) before submitting your letter.

<sup>4</sup> 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.

**[Draft] Amendments to the Third edition of the *IFRS for SMEs*  
Accounting Standard**

...

**Section 7  
Statement of Cash Flows**

Paragraphs 7.19B–7.19C (including their related heading) are added. New text is underlined.

**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.

**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.
- (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.
  - (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 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).

## Section 30

### *Foreign Currency Translation*

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

#### **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 the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall disclose:

- (a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint arrangement, associate or branch; and its principal place of business;
- (b) summarised financial information about the foreign operation; and

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STANDARD

- (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. New text is underlined.

## **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 A Effective date and transition

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

Paragraph A37A is added. New text is underlined.

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### Transition

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### Foreign currency translation

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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 B Glossary of terms

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

The Glossary of terms is amended. New text is underlined and deleted text is struck through.
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- severe hyperinflation** The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:
- (a) a reliable general price index is not available to all entities with transactions and balances in the currency; and
  - (b) ~~exchangeability between the currency is not exchangeable into and~~ a relatively stable foreign currency ~~does not exist~~. Exchangeability is assessed in accordance with Section 30.

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**Approval by the IASB of Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs Accounting Standard* published in March 2024**

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The Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs Accounting Standard* was approved for publication by all 14 members of the International Accounting Standards Board.

Andreas Barckow	Chair
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## **Basis for Conclusions on Exposure Draft *Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard***

*This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard (Addendum Exposure Draft). It summarises the considerations of the International Accounting Standards Board (IASB) in developing the Addendum Exposure Draft. Individual IASB members gave greater weight to some factors than to others.*

### **Supplier finance arrangements (paragraphs 7.19B–7.19C)**

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#### **Background**

- BC1 In May 2023 the IASB issued *Supplier Finance Arrangements*, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to require an entity to provide additional disclosures about its supplier finance arrangements. *Supplier Finance Arrangements* complements the disclosure requirements in full IFRS Accounting Standards. These requirements were identified by the Agenda Decision *Supply Chain Financing Arrangements – Reverse Factoring*, which was published in December 2020 by the IFRS Interpretations Committee in response to feedback from users of financial statements about the limitations of those requirements.
- BC2 The main requirements in full IFRS Accounting Standards (except for the disclosure requirements in IFRS 7) referred to in the Agenda Decision are already replicated in the *IFRS for SMEs Accounting Standard* or would be introduced by the proposed requirement to reconcile changes in liabilities arising from financing activities in paragraph 7.19A of the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*. Consequently, SMEs are already required to provide some information about financial liabilities and cash flows related to supplier finance arrangements. However, the IASB noted that users of SMEs' financial statements might not be able to obtain some other information necessary to understand fully the effects of supplier finance arrangements on an SME's liabilities and cash flows.
- BC3 In considering whether and how to amend the *IFRS for SMEs Accounting Standard* in the light of a new or amended full IFRS Accounting Standard, the IASB uses its alignment approach.<sup>5</sup> The SME Implementation Group (SMEIG) was consulted about the relevance of supplier finance arrangements (and the related amendments to IAS 7 in *Supplier Finance Arrangements*) to SMEs. Feedback from the SMEIG was that *Supplier Finance Arrangements* are relevant to SMEs. Consequently, the IASB amended the scope of the Second Comprehensive Review of the *IFRS for SMEs Accounting Standard* to include the amendments to full IFRS Accounting Standards for supplier finance arrangements.

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<sup>5</sup> The alignment approach has three principles: relevance to SMEs, simplicity and faithful representation. See paragraphs BC27–BC37 of the Basis for Conclusions on the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*.

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

- BC4 In developing the requirements in full IFRS Accounting Standards, the IASB considered various types of supplier finance arrangements and noted that an entity might enter into arrangements with varying structures and for various reasons. Two typical examples of such arrangements are where:
- (a) an entity obtains extended payment terms from the finance providers. The finance providers pay suppliers the amount they are due on the invoice due date, and the entity pays the finance providers an amount greater than the invoice amount at a date later than the related invoice date.
  - (b) an entity does not obtain extended payment terms from the finance providers, but the entity might have negotiated extended payment terms with its suppliers in the light of existing supplier finance arrangements. Suppliers that are part of the supplier finance arrangement can choose to be paid a discounted amount by the finance providers earlier than the invoice due date.
- BC5 In relation to the proposals set out in this exposure draft, the IASB decided to use the term ‘supplier finance arrangements’ to refer to the type of arrangements to which the corresponding amendments to full IFRS Accounting Standards apply. The IASB developed the scope of the proposed requirements:
- (a) to capture all supplier finance arrangements, irrespective of:
    - (i) the reason an SME entered into those arrangements;
    - (ii) the form or labelling of the arrangements; and
    - (iii) the presentation of the related liabilities and cash flows in an SME’s statement of financial position and statement of cash flows;
  - (b) to remain operable as new practices and arrangements evolve; and
  - (c) to include only arrangements that finance ‘amounts an SME owes its suppliers’ (see proposed paragraph 7.19B).<sup>6</sup>
- BC6 The proposals exclude finance arrangements that might have some but not all of the characteristics of supplier finance arrangements, as described in proposed paragraph 7.19B. Examples of arrangements that are not supplier finance arrangements within the meaning of the proposed new requirements include:
- (a) arrangements that are solely credit enhancements for an SME (such as financial guarantees including letters of credit used as guarantees); and

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<sup>6</sup> Like *Supplier Finance Arrangements*, the proposals in this exposure draft would not apply to arrangements that finance receivables or inventory.

- (b) 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).

### **Disclosure requirements (paragraph 7.19C)**

- BC7 Using its alignment approach, the IASB took the disclosure requirements in *Supplier Finance Arrangements* as a starting point. It then considered whether to propose any simplifications based on users' needs and the principles for reducing disclosures set out in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs Accounting Standard*. In particular, paragraphs BC157(a) and BC157(b) state that users of SMEs' financial statements are interested in information about:
- (a) short-term cash flows and about obligations, commitments or contingencies; and
  - (b) liquidity and solvency.
- BC8 The *IFRS for SMEs Accounting Standard* generally omits the disclosure objectives from full IFRS Accounting Standards. The objectives are omitted because applying the principles for reducing disclosures for SMEs, only some of the disclosure requirements from full IFRS Accounting Standards are included in the *IFRS for SMEs Accounting Standard*.<sup>7</sup> The inclusion of disclosure objectives in the *IFRS for SMEs Accounting Standard* might result in the perception that SMEs are required to provide the same disclosures that they would have provided in accordance with full IFRS Accounting Standards. Furthermore, the IASB stated that the amendments to the application guidance on IFRS 7 (and *Guidance on implementing IFRS 7*) are not relevant to SMEs because they relate to financial instrument risk disclosure requirements that are not in the *IFRS for SMEs Accounting Standard*.
- BC9 Having considered its principles for reducing disclosures, and the disclosure requirements in *Supplier Finance Arrangements*, the IASB proposes to require an SME to disclose:
- (a) the terms and conditions of the SME's supplier finance arrangements (paragraph 7.19C(a)). This disclosure would inform users of its financial statements that such arrangements are in place and explain their nature.
  - (b) the carrying amounts of financial liabilities that are part of a supplier finance arrangement and associated line items (paragraphs 7.19C(b)(i)). This disclosure would show the magnitude of the SME's supplier finance arrangements and the line items in which financial liabilities that are part of those arrangements are presented.

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<sup>7</sup> See paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs Accounting Standard*.

- (c) the carrying amounts of financial liabilities that are part of a supplier finance arrangement for which suppliers have already received payment from the finance providers (paragraph 7.19C(b)(ii)). This disclosure would enable users of the SME's financial statements:
  - (i) to analyse its liabilities and their effects on operating and financing cash flows; and
  - (ii) to understand how supplier finance arrangements affect its exposure to liquidity risk and how it might be affected if the arrangements were no longer available to it.
- (d) the range of payment due dates of: (i) financial liabilities that are part of a supplier finance arrangement; and (ii) comparable trade payables of the SME that are not part of such an arrangement. These disclosures would enable users of the SME's financial statements to assess how the arrangements affect its cash flows.
- (e) the information described in proposed paragraph 7.19C(b) as at the beginning and end of each reporting period. This disclosure would enable users of the SME's financial statements to assess changes in the financial liabilities that are part of a supplier finance arrangement and to understand how these changes affect the SME's cash flows during that period.
- (f) the type and effect of non-cash changes in the carrying amounts of the financial liabilities that the SME would be required to disclose in accordance with proposed paragraph 7.19C(b)(i). 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. For example, an SME 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 SME owes its suppliers an amount that becomes part of a supplier finance arrangement, the SME—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 SME 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. The SME would be required to disclose information about non-cash changes in accordance with proposed paragraph 7.19C(c)—that information would enable users of its financial statements: (i) to assess the carrying amounts of financial liabilities on a more comparable basis from one reporting period to another; and (ii) to understand how these non-cash changes affect the SME's cash flows.

### Aggregated information

- BC10 The IASB proposes to require an SME to aggregate the information it provides about its supplier finance arrangements. In the IASB's view, in most cases, aggregated information about an SME's supplier finance arrangements would satisfy the information needs of users of its financial statements. 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. However, to avoid material information from being omitted or obscured when aggregated, the IASB proposes to require an SME to disclose:
- (a) separately the terms and conditions of arrangements that have dissimilar terms and conditions. Disaggregated information would enable users of the SME's financial statements to assess the various types of arrangements into which it has entered.
  - (b) explanatory information about the ranges of payment due dates, or additional ranges, if those ranges are wide. The additional information would enable users of the SME's financial statements to assess the effect of arrangements on its cash flows.
- BC11 As described in paragraph BC9(f), proposed new paragraph 7.19C(c) would require an SME to disclose non-cash changes in the carrying amounts of the financial liabilities that it would disclose in accordance with proposed paragraph 7.19C(b)(i).<sup>8</sup> In the IASB's view, these non-cash changes might not be apparent without additional disclosure.
- BC12 Section 3 of the *IFRS for SMEs Accounting Standard* requires an SME to apply its judgement to determine whether and how it aggregates (or disaggregates) information in its financial statements to avoid omitting or obscuring material information. Therefore, the IASB decided it was unnecessary to propose developing disaggregation requirements in addition to those described in paragraph BC10.

### Costs of complying with the disclosure requirements

- BC13 In responding to the IASB's November 2021 Exposure Draft *Supplier Finance Arrangements*, stakeholders informed the IASB that the information an entity would be required to disclose in accordance with paragraphs 44H(a), 44H(b)(i) and 44H(b)(iii) of IAS 7 is generally available to entities. Therefore, the IASB's view is that applying the equivalent requirements in proposed paragraphs 7.19C(a), 7.19C(b)(i) and 7.19C(b)(iii), as set out in this exposure draft, would not result in substantial costs for an SME.

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<sup>8</sup> The proposed requirement in paragraph 7.19C(c) would not conflict with the requirement in proposed paragraph 7.19A for an SME to disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- BC14 Some stakeholders informed the IASB that the information about the carrying amounts, and associated line items, of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers (proposed new paragraph 7.19C(b)(ii)) might not be readily available. In making this disclosure an SME might incur costs:
- (a) amending contractual terms and conditions to access the required information from finance providers;
  - (b) developing processes and controls to collect and validate the information to be disclosed; and
  - (c) having the information audited.
- BC15 Other stakeholders, particularly users of financial statements, informed the IASB that, without the requirement in proposed paragraph 7.19C(b)(ii), an entity would disclose incomplete information that would fail to satisfy users' information needs (see paragraph BC9(c)). The IASB evaluated the costs and benefits for preparers and users of financial statements and concluded that the benefits for users of the information that would be required by paragraph 7.19C(b)(ii) would outweigh the potential costs for preparers of providing this information. The IASB has decided to ask a specific question in the invitation to comment on this exposure draft to help it evaluate the costs and benefits of this proposed requirement for SMEs and users of their financial statements.

### **Transition**

- BC16 The IASB aims to finalise the proposed amendments and include them in the third edition of the *IFRS for SMEs Accounting Standard*.<sup>9</sup> The IASB proposes no specific transition relief because SMEs would have enough time to provide the required information for comparative periods.
- BC17 The IASB proposes no specific transition requirements for a first-time adopter of the third edition of the *IFRS for SMEs Accounting Standard* because of the disclosure-only nature of the proposed amendments.

## **Lack of Exchangeability**

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### **Background**

- BC18 The IASB had been informed that stakeholders hold diverse views on how to determine whether a currency is exchangeable into another currency, and the exchange rate to use if it is not. Although circumstances in which a currency is not exchangeable into another currency might arise relatively infrequently, when they do arise, they are generally accompanied by deteriorating economic conditions. In those circumstances, the diverse views about how to apply full IFRS Accounting Standards could lead to material differences in affected entities' financial statements. Consequently, in August 2023, the IASB issued

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<sup>9</sup> See footnote 4 on page 9.

*Lack of Exchangeability*, which amended IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

- BC19 The IASB consulted the SMEIG about the relevance of the amendments to IAS 21 to SMEs. The IASB considered the SMEIG's feedback and assessed these amendments to be relevant to SMEs. Therefore, the IASB decided to amend the scope of its Second Comprehensive Review of the *IFRS for SMEs Accounting Standard* to include the amendments to full IFRS Accounting Standards for lack of exchangeability.
- BC20 Using its alignment approach, the IASB took the requirements and application guidance in *Lack of Exchangeability* as a starting point, and then considered whether to propose any simplifications.
- BC21 In considering possible simplifications, the IASB sought to achieve a balance between the costs that would be incurred by SMEs in applying any new requirements and the information needs of users of SMEs' financial statements. Specifically, the IASB considered:
- (a) how to keep Section 30 of the *IFRS for SMEs Accounting Standard* structurally consistent with the other sections of that Standard and how to keep the overall length of Section 30 in proportion with it;
  - (b) how to simplify the drafting of any new requirements;
  - (c) whether some of the application guidance included in Appendix A to IAS 21 (which is an integral part of IAS 21) could be included in Section 30 of the *IFRS for SMEs Accounting Standard* instead of as an appendix to that section; and
  - (d) which disclosure requirements might be onerous for SMEs or unnecessary for users of SMEs' financial statements (bearing in mind the principles for reducing disclosures set out in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs Accounting Standard*).

### **Assessing whether a currency is exchangeable**

- BC22 Many factors influence whether a currency is exchangeable into another currency. To make the definition of 'exchangeable' operational and to help SMEs apply that definition consistently, the IASB proposes to specify the circumstances in which, for the purposes of the *IFRS for SMEs Accounting Standard*, an SME is able to exchange a currency for another currency. In developing the proposals in this Exposure Draft, the IASB decided these questions—considered when it developed the amendments to IAS 21—applied equally to SMEs:
- (a) what time frame for obtaining the other currency does an SME consider (see paragraphs BC23–BC24)?
  - (b) what happens if an SME is able to obtain the other currency, but does not intend to do so (see paragraph BC25)?
  - (c) which markets or exchange mechanisms for obtaining the other currency does an SME consider (see paragraph BC26)?

- (d) what is the purpose for which an SME obtains the other currency (see paragraphs BC27–BC30)?
- (e) what happens if an SME is able to obtain only limited amounts of the other currency (see paragraphs BC31–BC32)?

#### **Time frame**

BC23 Proposed paragraph 30A.5 reflects the IASB’s conclusion that a normal administrative delay in obtaining the other currency:

- (a) does not contradict the notion of ‘immediate delivery’ embodied in a spot exchange rate. The IASB concluded that the notion of ‘immediate delivery’ includes a short period to meet administrative, legal or regulatory requirements in exchanging currencies.
- (b) does not preclude a currency from being exchangeable into that other currency. The IASB concluded that acknowledging the existence of normal administrative delays in currency exchanges would improve the operability of the proposed requirements. If an SME cannot consider a normal administrative delay in its assessment of the necessary time frame to exchange a currency for another currency, the SME might inappropriately conclude that a currency is not exchangeable into another currency.

BC24 The IASB proposes not to develop application guidance on what constitutes a ‘normal administrative delay’ – this assessment would depend on the facts and circumstances surrounding an exchange transaction.

#### **Ability to obtain the other currency**

BC25 The IASB decided that whether a currency is exchangeable into another currency depends on an SME’s ability to obtain the other currency and not on its intention or decision to do so. For example, a currency might be exchangeable into another currency for the purpose of realising an SME’s net investment in a foreign operation even if the SME has no intention of entering into a transaction that would result in realising that net investment.

#### **Markets or exchange mechanisms**

BC26 The nature and type of markets or exchange mechanisms can vary by jurisdiction. The IASB discussed whether to require an SME to consider specified markets or exchange mechanisms (for example, government-administered exchange mechanisms) in assessing exchangeability. The IASB decided that, in assessing whether a currency is exchangeable into another currency, an SME would be required to consider only markets or exchange mechanisms in which a transaction to exchange that currency into the other currency would create enforceable rights and obligations.

**Purpose of obtaining the other currency**

- BC27 In many jurisdictions (particularly those in which exchange rates are free-floating), only one exchange rate exists between two currencies. In such jurisdictions, the purpose for which an SME intends to use the other currency would neither change the exchange rate nor affect the SME's ability to obtain that other currency. However, for some currencies, exchange rates might vary depending on how the currency is to be used, which could affect the SME's ability to obtain those currencies. The IASB therefore concluded that it is important for an SME to consider the purpose for which it obtains (or hypothetically might need to obtain) the other currency.
- BC28 The IASB considered, separately, situations in which an SME:
- (a) reports foreign currency transactions in its functional currency (see paragraph BC29); and
  - (b) uses a presentation currency other than its functional currency or translates the results and financial position of a foreign operation (see paragraph BC30).
- BC29 The requirements in paragraphs 30.6–30.11 and 30.14–30.16 of the *IFRS for SMEs Accounting Standard* specify how an SME reports foreign currency transactions in its functional currency. These requirements apply to individual foreign currency transactions, and monetary and non-monetary items relating to such transactions. The IASB decided that, when reporting foreign currency transactions, an SME is required to assess a currency's exchangeability separately for each individual transaction, asset or liability. An SME would therefore assess whether it is able to obtain the other currency to realise or settle the transaction, or the asset or liability related to that transaction.
- BC30 The requirements in paragraphs 30.17–30.23 of the *IFRS for SMEs Accounting Standard* specify how an SME uses a presentation currency other than its functional currency and how it translates the results and financial position of a foreign operation. These requirements apply to all assets and liabilities of an SME or its foreign operation. The IASB therefore proposes to require an SME to assess exchangeability from the perspective of a transaction that would result in realising or settling its net assets or net liabilities (or net investment in the foreign operation) instead of individual assets or liabilities. The IASB noted that:
- (a) an SME considers its ability to realise its net assets (or net investment in a foreign operation) in a single transaction at the measurement date (for example, by disposal of the investment)—and not over time (for example, by receiving a stream of dividends)—even if it might often be unable to realise its net assets (or net investment in a foreign operation) in a single transaction.
  - (b) delays in remitting dividends might reflect a normal administrative delay.

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

- BC31 An SME might be able to obtain only limited amounts of the other currency. The IASB proposes to specify that, in such circumstances, a currency is exchangeable into another currency if an SME is able to obtain more than an insignificant amount of that other currency. In other words, if the activity in the market in which an SME obtains the other currency is so low that the SME is able to obtain only an insignificant amount of that other currency, the SME would estimate the spot exchange rate in accordance with proposed paragraph 30.5A of the *IFRS for SMEs* Accounting Standard—in which case the SME is permitted to depart from using the observable exchange rate.
- BC32 In developing its proposals, the IASB considered the degree to which an SME assesses the significance of the amount of the other currency it is able to obtain—for example, whether an SME carries out this assessment for each transaction and balance separately, or on an aggregated basis. The IASB proposes to require an SME to assess the significance of the amount of the other currency it is able to obtain for a specified purpose using the aggregate method described in proposed paragraph 30A.11 of the *IFRS for SMEs* Accounting Standard. Instead of requiring an SME to consider each transaction or balance separately, the aggregate method would require it to compare the amount of the other currency it is able to obtain with the aggregated amount (the sum) of the transactions or balances it needs to recover or settle.

**Estimating the spot exchange rate when a currency is not exchangeable**

- BC33 The IASB proposes that when a currency is not exchangeable into another currency at a measurement date, an SME be required to estimate the spot exchange rate at that date. The objective described in proposed paragraph 30.5A of the *IFRS for SMEs* Accounting Standard is for an SME to estimate the rate at which an orderly exchange transaction hypothetically would take place at the measurement date between market participants under prevailing economic conditions. This approach is similar to (although not the same as) that of an SME measuring an asset or liability at fair value by estimating the price at which an orderly transaction to sell the asset or transfer the liability hypothetically would take place at the measurement date.
- BC34 The IASB proposes not to provide any detailed requirements specifying how an SME would estimate a spot exchange rate because:
- (a) estimation of a spot exchange rate can be complicated and depends on SME-specific and jurisdiction-specific facts and circumstances.
  - (b) an SME might use various economic models to estimate a spot exchange rate. These models vary in complexity and in the economic factors they use as inputs (for example, inflation, interest rates, the balance of payments or a jurisdiction's productivity). 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.

- (c) the requirements for assessing exchangeability are expected to result in an SME estimating the spot exchange rate in only a narrow set of circumstances.
- (d) the uncertainties inherent in estimating a spot exchange rate are similar to those that relate to other financial information based on estimates. An SME would be required to disclose relevant information about the estimated spot exchange rate and the estimation process (see paragraphs BC36–BC39).
- (e) such an approach is consistent with the measurement requirements in other sections of the *IFRS for SMEs Accounting Standard*.

BC35 The IASB noted that when a currency is not exchangeable into another currency, an SME does not necessarily need to use a complex estimation technique. To reduce complexity, the IASB proposes:

- (a) to specify that an SME is permitted to use an observable exchange rate without adjustment as the estimated spot exchange rate, if that observable exchange rate meets the objective described in proposed paragraph 30.5A of the *IFRS for SMEs Accounting Standard* (see also proposed paragraph 30A.13).
- (b) to set out a non-exhaustive list of factors to help SMEs assess whether those observable exchange rates would meet the objective described in paragraph 30.5A of the *IFRS for SMEs Accounting Standard* (see proposed paragraphs 30A.14–30A.17).
- (c) to specify that an SME using another estimation technique could, for example, start with an observable exchange rate—including a rate from an exchange transaction in a market or exchange mechanism that does not create enforceable rights and obligations—and adjust that rate, as necessary, to estimate the spot exchange rate as required by paragraph 30.5A of the *IFRS for SMEs Accounting Standard* (see proposed paragraph 30A.18).

### Disclosure

BC36 An SME's estimation of a spot exchange rate when a currency is not exchangeable into another currency could materially affect its financial statements. In making that estimation it would be necessary for the SME to make judgements and assumptions. When the IASB was developing the corresponding requirements in full IFRS Accounting Standards, users of financial statements told the IASB that they are interested not only in the effect on an entity's financial statements of estimating the spot exchange rate, but also in understanding an entity's exposure to a currency that is not exchangeable into another currency. Users said that information about the nature and financial effects of a currency not being exchangeable into another currency, the spot exchange rate used, the estimation process and the risks to which the entity is exposed would help their analyses.

- BC37 The *IFRS for SMEs* Accounting Standard generally omits the disclosure objectives from full IFRS Accounting Standards (see paragraph BC8). In addition, the Standard does not require the same disclosures about an SME's exposure to specific risks as required by full IFRS Accounting Standards. Therefore, the IASB proposes not to require an SME to provide information about the specific risks to which the SME is exposed because of the currency not being exchangeable. However, the IASB concluded that requirements akin to the other specific disclosure requirements included in IAS 21 would provide users of SMEs' financial statements with useful information.
- BC38 The IASB concluded that it was unnecessary to include specific disclosure requirements regarding significant judgements made by an SME in assessing exchangeability. Paragraph 8.6 of the *IFRS for SMEs* Accounting Standard already requires disclosure of such judgements to the extent they are part of the judgements an SME's management has made that have the most significant effect on the amounts recognised in the financial statements.
- BC39 The IASB noted that, for an SME applying proposed new paragraphs 30.28–30.29, as set out in this exposure draft, disclosures would be required when a currency is not exchangeable into another currency at the end of the reporting period and also when a currency is not exchangeable into another currency during part of the reporting period—even if that is no longer the case at the end of the reporting period.

## Transition

### Entities already applying the *IFRS for SMEs* Accounting Standard

- BC40 The IASB proposes the same transition requirements as those for entities applying the corresponding amendments to IAS 21 to ensure that the requirements for lack of exchangeability are no more onerous for SMEs applying them for the first time than they are for entities applying full IFRS Accounting Standards. When developing the transition requirements in *Lack of Exchangeability*, the IASB concluded that the expected benefits of requiring entities to apply the amendments retrospectively would not outweigh the costs of doing so. In particular:
- (a) an entity applying the amendments retrospectively would be required to assess exchangeability in prior periods and then estimate spot exchange rates for those prior periods. In many cases, retrospective application would be likely to require the use of hindsight and, even if possible without hindsight, would be costly.
  - (b) a currency not being exchangeable into another currency is generally accompanied by high inflation and other economic events that make trend information less useful for users than in other situations. Users said that, if a currency is not exchangeable into another currency, they would be interested in understanding an entity's exposure to that currency at the reporting date.

- BC41 The IASB therefore proposes to require an SME to apply the amendments from the date of initial application without restating comparative information. The IASB proposes:
- (a) to require an SME to translate items using the estimated spot exchange rate at the date of initial application if the related requirement in the *IFRS for SMEs Accounting Standard* requires an SME to translate that item using the closing rate.
  - (b) to prohibit an SME from retranslating other items, even though they might have been translated using a spot exchange rate that is not aligned with the amendments. The expected benefits of requiring an SME to identify those items and then estimate an appropriate exchange rate would not outweigh the costs of doing so.
  - (c) to require an SME to recognise any effect of initially applying the amendments as an adjustment to:
    - (i) the opening balance of retained earnings when the SME reports foreign currency transactions. For these transactions, an SME generally recognises exchange differences in profit or loss. Requiring SMEs to track separately any exchange differences recognised in other comprehensive income would introduce unnecessary complexity.
    - (ii) the cumulative amount of translation differences in equity when the SME uses a presentation currency other than its functional currency or translates the results and financial position of a foreign operation. In these situations, an SME generally recognises exchange differences in other comprehensive income and accumulates those differences in a separate component of equity.

#### **First-time adopters**

- BC42 The IASB concluded that a specific exemption from retrospective application of the amendments would be unnecessary for a first-time adopter of the *IFRS for SMEs Accounting Standard* because:
- (a) Section 35 *Transition to the IFRS for SMEs* does not provide any exemption for a first-time adopter that reports foreign currency transactions in its financial statements. The SME therefore applies all the applicable requirements in Section 30 retrospectively when reporting foreign currency transactions.
  - (b) paragraph 35.10(e) of the Standard already permits a first-time adopter to deem the cumulative translation differences for all foreign operations to be zero at its date of transition to the Standard.
- BC43 The IASB proposes to amend the definition of 'severe hyperinflation' in Appendix B to the *IFRS for SMEs Accounting Standard* for consistency with the proposed requirements in Section 30.

## Effective date

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- BC44 The IASB proposes that the effective date of the requirements for supplier finance arrangements and lack of exchangeability be the same as the effective date of the third edition of the *IFRS for SMEs* Accounting Standard (that is, a minimum of two years from the date when the third edition of the Standard is issued, with early application permitted).



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