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International Accounting Standards Board
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Dear IASB members,

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

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Accounting Standards Board's (IASB or the Board) Exposure Draft ED/2024/2 – Addendum to the Exposure Draft – Third edition of the IFRS for SMEs Accounting Standard (the ED).

We generally support the proposals within the ED in respect of the additional disclosures required for supplier finance arrangements. Section 7 Statement of Cash Flows of the *IFRS for SMEs* accounting standard (the Standard) would benefit from targeted updates to make it fit for purpose in the current economic environment.

We support the amendments to Section 30 Foreign currency translation related to Lack of Exchangeability as these are equally relevant to entities applying the Standard and operate in the applicable economic conditions.

Since the inception of the alignment project, we have observed that the disclosure requirements for the Standard have increased commensurately to mirror those in the full IFRS accounting standards (full IFRS). As a general comment, we believe that it is important that the Board continues to reduce the burden of compliance by simplification of the Standard and reducing the volume of disclosures required, to help the many small and very small entities, including those that are owner managed, who apply the standard in developing economies.

A summary of our response to the questions are set out in the Appendix to this letter. Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address, or on +44 (0) 20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

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.

Section 7 of the Standard does not provide a detailed definition of supplier finance arrangements, rather it includes a description of the characteristics of such arrangements. We support the Board's proposal not to provide a detailed definition of supplier finance arrangements which aligns with IAS 7. However, we believe that the absence of a definition could result in some financing arrangements with the characteristics described in Section 7 paragraph 19B, but not necessarily intended by the Board to be within the scope of the requirements, being treated as supplier finance arrangements such as credit card arrangements. In the amendments to the full IFRS, IAS 7.44G specifies that arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements. While this is indicated in BC6 of the ED, we believe that it should be included in the main body of the Standard to maintain consistency with the amendments to IAS 7. In addition, given that the Standard is intended to be concise in order to achieve simplification, it would be useful to present information all in one place (i.e., within Section 7), thereby eliminating the need for users to refer to multiple locations.

In addition to the above, we believe that preparers would benefit from a list of common examples of arrangements that would or would not fall within the scope of the proposed requirements.

We note that these proposals are the same as the amended disclosures within IAS 7 on supplier finance arrangements. However, we disagree with the disclosures suggested in section 7.19C(b)(ii) and section 7.19C(b)(iii).

We understand that the Board's reasons for proposing these disclosures in respect of the ED was to provide users with information stated within the BCs, as follows:

- In BC9 (c)(ii) it is noted that paragraph 7.19C(b)(ii) disclosure would enable users 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.
- BC9(d) indicates that disclosure of the range of payment due dates as per paragraph 7.19C(b)(iii) above would enable users to assess how the arrangements affect its cash flows.

The reasons above are relevant for entities applying full IFRS as they provide additional information not currently provided by IFRS 7 paragraph 39 on liquidity disclosures. However, for entities applying the Standard (Section 11 Financial instruments), there are no such liquidity risk disclosures required as part of the Board's efforts to simplify this standard. In the absence of the equivalent IFRS 7 paragraph 39 on liquidity disclosures in the Standard, disclosures required by 7.19C(b)(ii) and (b)(iii), would not provide meaningful insight into the entity's exposure to liquidity risk and the effects on its cash flows. We recommend that, in the future, the Board considers the possibility of incorporating an equivalent to the liquidity risk disclosure in paragraph 39 of IFRS 7 into the Standard, in order to provide relevant and holistic information to users on liquidity risk.

We have expanded our response with respect to paragraph 7.19 C (b)(ii) in question 2 below. In addition, the disclosure required by paragraph 7.19Cb(iii) may be challenging for some entities to obtain this information and entities would have to establish a system allowing for collection of the required information, which could involve collecting information from a third party.

We are concerned whether providing the information required by paragraph 7.19C(b)(iii) would be at undue cost to the preparer of the financial statements and would not have sufficient benefit to their users in the absence of equivalent IFRS 7 liquidity disclosures as detailed above. We expect that if the reporting entity has set up the arrangement with financiers, it would likely have the information to meet such disclosure requirements. However, if the supplier enters into an arrangement with third party financiers, then the reporting entity would not have the information to meet the disclosure requirements.

Based on the above, we propose that the Board reconsiders this as part of a simplification process to reduce disclosures for this Standard by not requiring the entities to provide disclosures under paragraphs 7.19C(b)(iii).

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.

We acknowledge the Board's view on BC14 and BC15 in explaining that the benefits of providing the disclosure required by paragraph 7.19 C(b)(ii) would outweigh the costs. This decision was made in the context of the needs of users for full IFRS. However, we still propose that the Board reconsiders and sees this as part of the simplification process to reduce disclosures for this Standard by not requiring the entities to provide disclosures of paragraph 7.19C(b)(ii) for the reasons detailed below:

- We are concerned that obtaining the required information necessary to meet the proposed requirement in paragraph 7.19C(b)(ii) could be challenging in many cases, because of the reliance on obtaining information from a third party (i.e., the finance provider), which may also be restrained from sharing this information.
- To comply with the requirements proposed in paragraph 7.19C(b)(ii), entities will have to establish a system to allow for collection of the required information, which could involve collecting information from a third party. The cost and effort required of an SME in developing such a system may be significant, and we are not convinced that the associated benefits to users of having access to the information will outweigh these costs.

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 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. 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.

We agree that the amendments to Section 30 of the Standard in respect of lack of exchangeability are relevant to SMEs operating in the impacted economic environments where the currency may lack exchangeability. The amendments to Section 30 would provide useful guidance to these entities. However, since the amendments to IAS 21 are only effective for reporting periods on or after 1 January 2025, there is little experience and practical examples in practice.

Amending the Standard for the lack of exchangeability is consistent with the Board's objective for the third amendment for the Standard to become standalone and complete. However, from our engagement with countries that are potentially affected by these amendments, it was clear that there is currently no observable experience of the application of the amendments under full IFRS available to learn from. We support the IASB's proposal to amend Section 30, even though there is insufficient evidence in practice to propose simplifications for SMEs.

To support the entities applying this standard, we encourage the Board to provide more guidance through illustrative examples (as provided in IAS 21 IE2 – IE18) or educational material and make provision for SMEs to use the cost benefit considerations, in determining how to simplify the requirements for SME users.

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. (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.

In respect of question 4a, we agree that the amended Sections 7 and 30 should have the same effective date as the third edition of the Standard on the basis that both amendments are equally important and applicable to economic environments in which SMEs operate.

In response to question 4b, we note that in IAS 7, there are certain relief measures that have not been brought into the addendum for *IFRS for SMEs*. We refer specifically to paragraph 63 of IAS 7. We have noted within the BC16 of the ED, that the reason for this is due to SMEs having more time ahead of the adoption to assess and ensure the disclosure requirements will be met. However, we believe that given the purpose of the Standard is simplified accounting and disclosure requirements, SME users would benefit from these transition reliefs.

In response to question 4c, we agree with the sentiment expressed in BC40 of the ED that any transition relief allowed within full IFRS for entities applying the IAS 21 amendments should also be allowed to preparers of financial statements applying the Standard to ensure that the requirements are no more onerous for SMEs applying the amendments for the first time than it is for preparers applying full IFRS.