



KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

brian.odonovan@kpmgifrg.com

Dr. Andreas Barckow
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref BOD/288

29 July 2024

Dear Dr. Barckow

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

We appreciate the opportunity to comment on the International Accounting Standards Board's (the IASB) Exposure Draft *Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard*. We have consulted with, and this letter represents the views of, the KPMG network.

Overall, we are supportive of the amendments to Sections 7 and 30 of the *IFRS for SMEs*[®] Accounting Standard (SMEs Accounting Standard) proposed in the Exposure Draft. In relation to Section 7 however, we do have some concern that some SMEs may find it difficult to access the information needed to satisfy the proposed requirement to disclose the carrying amount of financial liabilities for which suppliers have already received payment from finance providers. Accordingly, we suggest that this proposed disclosure requirement is subject to the "undue cost or effort" principle set out in Section 2 of the SMEs Accounting Standard.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Úna Curtis at una.curtis@kpmg.ie if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Appendix

KPMG's responses to the specific questions raised in the ED

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.

We agree with amending Section 7 of the SMEs Accounting Standard to align with IAS 7 *Statement of Cash Flows*, as amended by *Supplier Finance Arrangements*.

We agree that the issue of supplier finance arrangements can be relevant to SMEs' financial statements. Accordingly, we believe that providing disclosure requirements about supplier finance arrangements in the SMEs Accounting Standard that are based

on those in IAS 7 as amended by *Supplier Finance Arrangements* will provide more decision useful information for users of SME financial statements.

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.

While we consider it is primarily a matter for users to comment on the benefits of the proposed disclosures, and for preparers to comment on the cost of compiling them, we nevertheless question whether the proposed requirement to disclose the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers, is practical in all circumstances.

In particular, we believe some smaller SMEs may find it difficult to access this information. Rather than providing a blanket exemption to providing this information, however, we suggest that this disclosure requirement should be subject to the “undue cost or effort” principle set out in Section 2 of the SMEs Accounting Standard.

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.

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 with the proposals to amend Section 30 *Foreign Currency Translation* in order to align the SMEs Accounting Standard with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, as itself amended by *Lack of Exchangeability*.

We believe that a lack of exchangeability between two currencies is an issue which, while not being widespread, can affect SMEs and therefore support the principle of estimating a rate if there is lack of exchangeability between two currencies.

We consider the proposed factors an SME would be required to consider in assessing exchangeability, and the related application guidance that would help an SME estimate the spot exchange rate when a currency is not exchangeable into another currency, as consistent with the requirements in IAS 21, and therefore support the proposed amendments.

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.

We agree with aligning the proposed effective date with that of the third edition of the SMEs Accounting Standard. We also agree with the proposed transition requirements.