

Date 31 July 2024

Dr Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
UNITED KINGDOM

(submitted via the IASB website)

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

Dear Andreas,

As the Chartered Institute for Business Accountants (CIBA), we appreciate the opportunity to comment on the Exposure Draft for the IFRS for SMEs. In our review, we remain vigilant in upholding the fundamental principles that safeguard the interests of SMEs against undue complexity and preserve the original intent of the IFRS for SMEs framework.

We assert that any amendments to the IFRS for SMEs must clearly demonstrate a dual perspective on cost-benefit analysis: not only considering the compliance costs for SMEs but also weighing these against the tangible benefits for the SME-User relationship. This approach ensures a balanced view that highlights potential hidden impacts not immediately apparent under a singular perspective.

Furthermore, our stance is grounded in the principle of resisting amendments unless they distinctly enhance the framework's original purpose—to provide a simplified, less burdensome set of standards than the full IFRS, specifically tailored to meet the unique needs of SMEs. Transparency, while valuable, should not override the primary goals of practicality and relevance tailored to SME contexts. We urge the IASB to maintain this hierarchy of needs as the cornerstone of decision-making, preventing scope creep and ensuring that amendments serve to genuinely improve the economic and operational realities of SMEs.

In our comments on the specific questions posed by the Exposure Draft, we have emphasized these principles and believe that our suggestions align closely with the overarching aim to refine the standard thoughtfully and prudently.

CIBA represents a diverse group of accounting professionals in South Africa, who are deeply committed to upholding the standards of financial reporting and transparency that are essential for the effective functioning of our financial markets. Our main goal is to help accountants improve their skills and uphold high standards in their work. We offer certifications, ongoing education, and uphold a code of conduct to ensure our members perform their best. As we reach out to our stakeholders, we are committed to maintaining honesty, responsibility, and openness in the accounting profession.

We will respond to the IASB questions on the Exposure draft in detail below.

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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.

CIBA Response to Question 1

Simplifying Definitions: CIBA supports the IASB's initiative to define and clarify the disclosure requirements for supplier finance arrangements. We recommend explicitly stating that financial guarantees and direct payment instruments like credit cards should not be considered supplier finance arrangements. This would prevent SMEs from misunderstanding what needs to be reported, making the process more straightforward.

Streamlining Disclosure Requirements: We suggest focusing disclosures on the most critical terms and conditions of supplier finance arrangements to avoid overburdening SMEs, particularly smaller

ones. Additionally, the current requirement to report financial liabilities at the start of the reporting period could be streamlined. Since SMEs already report similar information at the end of the period, repeating it at the beginning may not add much value and could increase the workload unnecessarily.

Reducing Complexity in Reporting: The requirement to track and report whether suppliers have been paid by finance providers is complex and potentially costly. We recommend removing this requirement to make reporting easier for SMEs. Simply reporting the key terms and the amounts at the end of the period should provide enough information for stakeholders to understand the impact of supplier finance arrangements.

Clarifying Non-Cash Changes: The usefulness of comparing payment due dates under different financing arrangements is questionable. It might be more practical to only report the range of payment due dates for financial liabilities under supplier finance arrangements. More guidance and examples are also needed to help SMEs understand and report non-cash changes, especially in situations where the nature of cash flows changes from operating to financing.

In conclusion, CIBA appreciates the IASB's efforts to improve transparency in financial reporting for supplier finance arrangements. We believe that simplifying the proposed amendments will help ensure they are manageable and beneficial without placing undue burdens on SMEs. Clearer requirements and reduced complexity will make it easier for SMEs to comply and provide meaningful information.

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.

CIBA Response to Question 2

Assessment of Disclosure Requirements: CIBA has considered the implications of the proposed requirement in paragraph 7.19C(b)(ii) to disclose financial liabilities that have already been paid by finance providers, separate from those still owed by the SME.

Concerns Over Additional Costs: From our perspective, the additional burden of tracking and disclosing which liabilities have been settled by finance providers could prove particularly challenging for SMEs. Many SMEs may not have the sophisticated financial systems required to track these payments separately without incurring significant costs in terms of both time and resources. This could include upgrading IT systems, training staff on new procedures, and potentially hiring additional accounting support to manage these details accurately.

Potential Costs Outweigh Benefits: The proposed disclosure aims to provide greater transparency regarding an SME's liquidity and cash flow management. However, we believe that the potential costs of implementing such detailed tracking and reporting requirements could outweigh the benefits. For many SMEs, especially smaller ones, the detailed breakdown of paid versus unpaid liabilities under finance arrangements may not significantly alter the decision-making process of users of the financial statements. Users are often more concerned with overall liquidity and debt levels rather than the specifics of which liabilities have been settled by third parties.

Alternative Approaches: Instead of mandating this detailed disclosure, an alternative approach could be more beneficial for both SMEs and users of financial statements:

1. **Aggregated Disclosure:** Allow SMEs to provide aggregated information about their supplier finance liabilities without needing to specify which portions have been paid by finance providers. This approach would still give a sense of the scale and nature of financing arrangements without the detailed granularity.
2. **Voluntary Disclosure:** Encourage, but not require, SMEs to disclose details about liabilities paid by finance providers if such information is readily available and if the SME believes it significantly impacts their financial transparency.

In conclusion, while we understand the IASB's intention to increase transparency, we recommend reconsidering the requirement in paragraph 7.19C(b)(ii) to better balance the practical challenges and costs for SMEs with the informational benefits to users. Providing flexibility in how these disclosures are made, or simplifying the requirements, could enhance compliance without imposing undue burdens on SMEs.

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.

CIBA Response to Question 3

Overview of Proposed Changes: The IASB’s initiative to clarify and guide SMEs on handling situations where there is a lack of exchangeability between currencies is highly commendable. The specific focus on defining when a currency is exchangeable, factors for assessing exchangeability, methodologies for calculating exchange rates, and disclosure requirements promises enhanced clarity and uniformity in financial reporting.

Detailed Feedback and Recommendations:

1. **Simplicity in Application:** While detailed guidance like that proposed in Appendix A to Section 30 could be valuable, we suggest that the IASB consider streamlining this guidance to focus on essential elements only. This approach could include developing complementary educational materials rather than extensive appendices, especially in jurisdictions where currency exchange issues are less prevalent. Such an approach would help maintain the balance between providing necessary guidance and ensuring that the guidance does not become overly burdensome for SMEs.

2. **Flexibility and Practicality:** We support a flexible approach in estimating spot exchange rates as it allows SMEs to select methods that best suit their specific circumstances. However, to enhance comparability across different entities, we recommend that the IASB provide a range of acceptable methodologies that SMEs can choose from. This guidance should aim to minimize discrepancies in financial reporting without being overly prescriptive.
3. **Clear Definitions and Terms:** The term 'exchangeable' plays a crucial role in these new standards. We suggest that this term, along with any other critical terminology, be clearly defined in the Glossary of the IFRS for SMEs Accounting Standard. Clear definitions will ensure consistency in interpretation and application across all entities using the standard.
4. **Disclosure Simplification:** Considering the complexities involved in financial reporting on foreign currency transactions, we recommend simplifying the disclosure requirements to focus on the most critical elements that influence financial decisions. For example, disclosing the spot exchange rates used could be prioritized over more detailed disclosures that might not significantly enhance user understanding.
5. **Enhanced Guidance and Examples:** To aid SMEs in correctly applying the new requirements, particularly in estimating spot exchange rates when direct exchange is not possible, we propose that the IASB include practical examples and scenarios in the guidance. Examples of what constitutes a 'normal administrative delay' and examples of acceptable estimation techniques would be particularly beneficial.

In conclusion, CIBA appreciates the efforts by the IASB to improve the clarity and effectiveness of financial reporting standards related to currency exchangeability. By incorporating these suggestions, we believe the amendments will better serve the diverse needs of SMEs globally, providing them with the tools to manage currency exchange issues efficiently while ensuring that financial statements remain transparent and comparable.

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;⁴
- 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.

CIBA Response to Question 4

The IASB proposes to synchronize the effective dates of the amendments to Sections 7 and 30 with the release of the third edition of the IFRS for SMEs Accounting Standard. Additionally, the proposal includes no transition relief for the amendments to Section 7 but specifies transition requirements for the amendments to Section 30 regarding currency exchangeability.

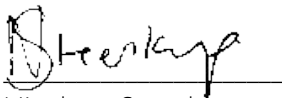
1. **Effective Date Synchronization:** CIBA supports the proposal to align the effective dates of the amendments with the third edition of the Standard. This alignment simplifies implementation for SMEs by allowing them to adopt all changes concurrently, facilitating better planning and resource allocation. Unified implementation helps SMEs manage changes more effectively, reducing the administrative burden and potential confusion that staggered updates might introduce.
2. **Transition Relief for Section 7:** We agree with the decision not to provide transition relief for amendments to Section 7, as these primarily involve disclosure requirements which do not generally impose significant preparatory burdens on SMEs. Immediate application of these disclosure amendments will enhance transparency and comparability in financial reporting sooner, benefiting users of financial statements.
3. **Specific Transition Requirements for Section 30:** CIBA supports the specific transition requirements proposed for Section 30, given the complexities involved in assessing and reporting on foreign currency exchangeability. To aid SMEs in applying these requirements, we recommend that the IASB provide additional examples and practical guidance, especially on estimating spot exchange rates when direct exchange is not possible. This guidance should aim to standardize practices and minimize discrepancies in financial reporting.
4. **Global Standards Consistency:** We support aligning the transition requirements for Section 30 with those applied in international standards like IAS 21, which addresses changes in foreign exchange rates. Consistency with global standards facilitates smoother transitions for entities operating in multiple jurisdictions and enhances comparability.

In conclusion, CIBA appreciates the IASB’s efforts to enhance clarity and practicability in the IFRS for SMEs Accounting Standard through these amendments. By considering these recommendations, the IASB can ensure that the standards not only meet the needs of SMEs globally but also provide financial statement users with timely and relevant information. Enhanced support during the transition period, including practical examples and additional guidance, will be crucial in achieving successful implementation across diverse business environments.

In closing, CIBA extends its gratitude to the International Accounting Standards Board for considering our feedback on these significant issues. We are committed to supporting the ongoing refinement of the IFRS for SMEs Accounting Standard to ensure it continues to meet the evolving needs of the global SME community. We believe that the thoughtful consideration and incorporation of the suggestions provided herein will further enhance the practical utility and global applicability of the standard, enabling SMEs to achieve greater transparency and efficiency in financial reporting. CIBA looks forward to continued collaboration with the IASB and other stakeholders to foster a regulatory environment that is both supportive and effective for SMEs worldwide.

CIBA remains committed to engaging in further discussions and providing additional input as needed to support the development of standards that uphold the integrity and transparency of financial reporting across global markets.

Kind regards,

A handwritten signature in black ink, which appears to read 'Nicolene Steenkamp', is written over a horizontal line.

Nicolene Steenkamp
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ANNEXURE A: About CIBA

CIBA is a Professional Accountancy Organisation (PAO) and Self-Regulatory Organisation for accountants, tax practitioners, financial managers, and financial directors, in the public and private sector, with offices in South Africa and Namibia. We are associate members of the Pan African Federation of Accountants (PAFA) and full members of the International CFO Alliance (ICFOA). CIBA is authorised to issue designations as registered with the South African Qualifications Authority (SAQA) and our designated members are recognised as accounting officers, independent reviewers, and independent accounting professionals.

CIBA is a statutorily recognised professional accountancy organisation performing a public service in terms of the following empowering legislation:

South Africa

- Recognised Professional Body and Registered Professional Designations: National Qualifications Framework Act 67 of 2008
- Recognised Controlling Body for Tax Practitioners: Section 240A of the Tax Administration Act, 2011
- Professional Accountancy Organisation for Assurance and Non-assurance providers: Regulation 29(4) of the Companies Act, 2008 and Section 60(2) of the Close Corporations Act, 1984.

Namibia

- Professional Accountancy Organisation for Accounting Officers: Section 60(2) of the Close Corporations Act, 1988.

CIBA's objectives are to protect the public interest by adopting and enforcing standards of ethics, conduct, quality, and service engagement standards that seek to ensure the delivery of accountable and transparent professional service by CIBA members.

We do this by offering executive education and continuous professional development (CPD) via our training platform CIBA Academy, technical news updates via accounting weekly and CFO talks, and enforcing ethical conduct through thorough monitoring and disciplinary procedures.

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