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

Comments by

Unione Nazionale Giovani Dottori Commercialisti ed Esperti Contabili

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This document was drawn up in response to the public consultation on supplementary proposals to update the "*Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard*".

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Below are the questions and comments proposed:

Question 1—Supplier finance arrangements—Scope and disclosure requirements (proposed new paragraphs 7.19B–7.19C)	**Comment**
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.	The separate disclosure about the arrangements, that finance an entity, based on different terms and conditions, is generally shareable; the only one consideration is the following: therefore the IASB, in paragraph 7.19B consider as typical examples of such arrangements two kind of it based on the effective financed entity (buyer or supplier) it could be more conformed to the alignment approach of the IASB (*simplicity*) to consider only three different disclosure criteria and provide different report due for each one of it: 1. extended payment terms (effective financed is the buyer); 2. reverse factoring (effective financed is the supplier); 3. other (which involve conditions that are not be included into one of two above boxes). We consider that the required informations should increase for the entity the complexity to report instead of consider the nature of the arrangements, that is the relevant information required by users added to the effects on the cash flow statement. In our point of view this proposal simplify the disclosure for the entities that will must report several informations only regarding arrangements included into the third cluster (that we can consider as Not Disclosured Cluster), because includes various kind of arrangements that requires more informations to be disclosured and useful for external users. The other two cluster include arrangements with similar terms and conditions (and because of that we consider "Disclosured Cluster") and for that it's enough to report less information (type of the arrangement, duration, cost and other few details). Trying to explain the reason of our suggestion, where in the paragraph 7.19C a) it's indicated that "the terms and conditions of the arrangements (for examples, extended payment terms and security or guarantees provided)…" it may be considered as an opportunity to groups arrangements with similar terms and conditions or similar contractual nature and provide to simplify the reporting due. In this point of view when an entity recurs to an arrangements, if this is included into a Disclosured Cluster (the first two in the above list) the entity will not due to clarify and report more information; instead, if the arrangement is not included into one of the disclosured cluster but it's included into the third cluster (Not Disclosured Cluster) providing different security or guarantee conditions or other, only in this case the entity will report these informations.

Question 2—Supplier finance arrangements—Costs of applying proposed new paragraph 7.19C(b)(ii)	**Comment**
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.	We can consider that new disclosure requirement are at the same time necessary for users of financial statement but also a cost for an entity; not necessary an explicit cost, but surely an hidden cost, or a complexity cost. As these consideration are about SMEs, it might useful provide the disclosure only in case of significativity of the amount of these operation in the financial statement, based on a criteria that must be identifyed.

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.*	First of all, it's possible considering a different approach in case of small or medium entity; 1. for small entities the disclosure it should be required only if the amount of the operations are significative for the exposure of the financial statement (i.e. if the total carrying amount of the supplier financial arrangement are more than 20% of the trade payables or to other indicator); 2. for medium entities the disclosure is always required. In our point of view a medium entity is more organized and has a more organized administrative structure and, thus, the complexity costs's impact is less relevant; a small entity could be destructured and overall require an higher cost of complexity (in terms of percentage) to disclosure information required.

Question 3—Lack of exchangeability (proposed new paragraphs 30.5A, 30.28–30.29 and 30A.1–30A.18)	**Comment**
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.	The second method in paragraph 30A.12 for estimating the spot exchange rate when a currency is not exchangeable is a generic one. One could change '(b) another estimation technique (see paragraph 30A.18)' to '(b) an observable exchange rate in a related country (see paragraph 30A.18)'. Replace paragraph 30A.18 "an entity using another estimation technique may use any observable exchange rate, including rates derived from foreign exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations, and adjust that rate, as necessary, to achieve the objective described in paragraph 30.5A." with "the entity may use an observable exchange rate in a country that is similar in terms of its inflation rate, adopted monetary policies and policy stability, including rates derived from foreign exchange transactions in markets or exchange rate mechanisms that do not create enforceable rights and obligations, and adjust that rate, as necessary, to achieve the objective described in paragraph 30.5A."

Question 4—Effective date and transition (proposed new paragraph A37A)	Comment
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.	The only change I would make to paragraph A37A is the use of the exchange rate according to the method chosen in paragraph 30A.12. in particular: "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 nonmonetary items measured at fair value in a foreign currency, using the estimated spot exchange rate at that date ***as defined in paragraph 30A.12;***…"

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