

3 January 2012

SME Implementation Group (SMEIG)  
30 Cannon Street  
LONDON EC4M 6XH  
United Kingdom

Email: [CommentLetters@ifrs.org](mailto:CommentLetters@ifrs.org)

Dear Sir/Madam

**SAICA SUBMISSION ON THE DRAFT Q&As ON IFRS FOR SMEs,  
SECTION 11, ISSUE 1, FALLBACK TO IFRS 9 – FINANCIAL INSTRUMENTS  
AND SECTION 30, ISSUE 1, RECYCLING OF CUMULATIVE EXCHANGE  
DIFFERENCES ON DISPOSAL OF A SUBSIDIARY**

In response to your request for comments on the SMEIG's Draft Q&As on IFRS for SMEs, *Section 11, Issue 1, Fallback to IFRS 9 – Financial Instruments and Section 30, Issue 1, Recycling of Cumulative Exchange Differences on Disposal of a Subsidiary*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

**Sue Ludolph**  
**Project Director – Financial Reporting**

cc: Moses Kgosana (Chairman of the Accounting Practices Board)  
Paul O'Flaherty (Chairman of the Accounting Practices Committee)

**SAICA SUBMISSION ON DRAFT Q&As ON IFRS FOR SMEs, SECTION 11, ISSUE 1, FALLBACK TO IFRS 9 – FINANCIAL INSTRUMENTS AND SECTION 30, ISSUE 1, RECYCLING OF CUMULATIVE EXCHANGE DIFFERENCES ON DISPOSAL OF A SUBSIDIARY**

**GENERAL COMMENTS**

We agree with the proposed responses of the SMEIG to both the draft Q&As as indicated in our detailed discussion under each issue below. We request the IASB to consider the following two comments when updating the *IFRS for SMEs* in the forthcoming review process:

- Section 11 – *Financial Instruments* should be simplified with any relevant simplifications to financial instruments that have been considered in amending full IFRS.
- The issues resolved in the Q&As should be incorporated into the text of the *IFRS for SMEs*, if still required. This will prevent the need to keep an updated list of all Q&As issued over several years.

**SPECIFIC COMMENTS**

**SECTION 11**

**ISSUE 1 – *Fallback to IFRS 9 – Financial Instruments***

**Issue**

*Paragraph 11.2(b) gives an entity the option of applying the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement to account for all of its financial instruments instead of following the recognition and measurement requirements in Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues. The IASB has been replacing IAS 39 with IFRS 9 Financial Instruments in phases. May an entity choose to apply the recognition and measurement provisions of IFRS 9?*

We agree that entities applying *IFRS for SMEs* should not be permitted to apply the recognition and measurement provisions of IFRS 9. As noted above, we request that the simplification of the financial instruments section of the *IFRS for SMEs* should be considered in light of the developments in full IFRS.

**SECTION 30**

**ISSUE 1 – *Recycling of Cumulative Exchange Differences on Disposal of a Subsidiary***

**Issues**

1. *Paragraph 30.13 requires exchange differences arising on translation of a monetary item that forms part of a reporting entity’s net investment in a subsidiary to be recognised initially in other comprehensive income and to be reported as a component of equity in the consolidated financial statements. It specifically prohibits those cumulative exchange differences from being recognised in profit or loss (ie ‘recycled’) on disposal of that net investment.*

**SAICA SUBMISSION ON DRAFT Q&As ON IFRS FOR SMEs, SECTION 11, ISSUE 1, FALLBACK TO IFRS 9 – FINANCIAL INSTRUMENTS AND SECTION 30, ISSUE 1, RECYCLING OF CUMULATIVE EXCHANGE DIFFERENCES ON DISPOSAL OF A SUBSIDIARY**

2. *Paragraph 30.18 similarly requires exchange differences arising on translation of a foreign subsidiary into the group presentation currency for consolidation purposes to be recognised in other comprehensive income. But paragraph 30.18 is silent on recycling. Are the cumulative exchange differences that arise on translation into a presentation currency also prohibited from being recognised in profit or loss on disposal of the subsidiary?*

We agree that cumulative exchange differences that arise on translation of a foreign subsidiary into a presentation currency should also be prohibited from being recognised in profit or loss on disposal of a subsidiary, since such exchange differences are excluded (in paragraph 9.18) from the calculation of profit or loss on the disposal of a subsidiary.

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