

BY EMAIL

Dear Sirs

Association of Accounting Technicians response to IFRS for SMEs Standard Accounting for financial guarantees in parent's separate financial statements

The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the latest IFRS for SMEs Draft SMEIG Q&A on Accounting for financial guarantees in parent's separate financial statements.

AAT has added comment in order to add value or highlight aspects that need to be considered further.

AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.

Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our licensed accountants.

ISSUE

A parent entity prepares separate financial statements applying the *IFRS for SMEs* Standard. The parent entity guarantees repayment of a loan from a bank to one of its subsidiaries. How does the parent entity account for the financial guarantee issued to the bank in its separate financial statements?

RESPONSE

The parent entity shall account for the financial guarantee by applying the requirements in Section 12 *Other Financial Instrument Issues* – unless the parent entity chooses to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (as permitted by 11.2(b) and 12.2(b) of the *IFRS for SMEs* Standard).

AAT agrees with View 2 in the Basis for Conclusions section of the Draft SMEIG Q&A at paragraph BC1(b). AAT considers that a financial guarantee issued by a parent in respect of a subsidiary's financial liabilities is a financial liability, therefore falls under the scope of Section 11 or Section 12 of *IFRS for SMEs*. However, as the financial liability only crystallises if an unknown event occurs giving rise to the subsidiary defaulting on the loan, the financial guarantee is not a basic instrument and AAT supports this view. The parent entity is therefore required to follow the provisions in Section 12 of *IFRS for SMEs*.

AAT agrees, in principle, to the Response issued by the IFRS Foundation; but it could be more specific rather than merely pointing preparers to Section 12 of *IFRS for SMEs*. The Response should incorporate the actual accounting treatment, being at fair value, unless the parent entity chooses to apply the recognition and measurement requirements of IAS 39. Having regard to the accounting treatment in the Response would prove helpful to preparers too.

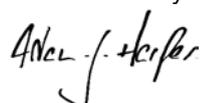
About AAT

AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

Please do not hesitate to contact me should you have any queries or require any further information.

Yours faithfully



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