Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin-american
Accounting Standard Setters

September 1, 2017

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: SMEIG Q&A - Accounting for financial guarantees in parent's separate financial statements

Dear Board Members:

The "Group of Latin American Accounting Standard Setters"[1] – GLASS welcomes the opportunity to comment on the SMEIG Q&A - *Accounting for financial guarantees in parent's separate financial statements* (the Q&A).

We understand that discussion was developed by the SME Implementation Group (SMEIG), which assists the International Accounting Standards Board (Board) in supporting implementation of the *IFRS for SMEs* Standard, and the Board will consider whether to incorporate this non-mandatory Q&A guidance in the *IFRS for SMEs* Standard.

Due process

The discussions regarding the Q&A were held within a specified Technical Working Group (TWG) created in June 2017. All GLASS country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall Comments

We would like to congratulate the Board for its efforts to address the concerns of how a parent entity accounts for financial guarantees issued to a bank in its separate financial statements.

GLASS agrees with SMEIG's preference for View 2: a 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 paragraphs 11.2(b) and 12.2(b) of the *IFRS for SMEs* Standard).

Despite the above, one country-member does not agree with View 2, as it believes that View 1 of the Q&A Basis for Conclusions is appropriate. It believes that the parent entity should account for the financial guarantee issued in accordance with Section 21.4(b). In this case, if the parent considers it is probable that subsidiary will not repay the loan to the bank, the parent should recognize a provision, otherwise, only disclosure is necessary.

Specific Comments

Attached please find our specific responses to the question presented in the Q&A.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Vice Chairman), Chile, Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (Chairman), Panama, Paraguay, Peru (Board Alternate), Uruguay (Board) y Venezuela (Board).

Sincerely yours,

Felipe Pérez Cervantes
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

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Exhibit

GLASS Comment Letter on SMEIG Q&A - Accounting for financial guarantees in parent's separate financial statements

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?

We believe that financial guarantee issued by the parent entity is a contractual right of the bank to receive cash from the parent entity and a contractual obligation of the parent entity to pay cash to the bank if the subsidiary defaults being, therefore, a financial liability.

In this case, the financial guarantee is covered by the requirements for accounting for financial instruments in the *IFRS for SMEs* Standard.

The financial guarantee does not constitute a basic financial instrument as it is contingent on a future unknown event and does not meet the criterion that there are no conditional returns or repayment provisions. Therefore, the parent entity should account for this transaction in its separate financial statements following the Section 12 of the *IFRS for* SMES Standard, choosing to apply either:

(a) the requirements Section 12 in full; or
(b) the recognition and measurement requirements of IAS 39 *Financial Instruments* (disclosure requirements of Section 12).

Despite this fact, we also believe that measurement, presentation and disclosure of financial guarantees according to Section 12 provides more useful, relevant and reliable information than if this transaction is measured, recognized and disclosed according to Section 21. Although it is true that the ability of the bank to exercise its contractual right and the controlling entity requirement to satisfy the obligation are contingent on the occurrence of a future event, this contingent nature does not eliminate the definition as a financial liability that has a financial guarantee.

Both elements, the contingent right and the contingent obligation, comply with the definition of financial assets and liabilities, respectively, although such assets and liabilities are not always recognized in the financial statements. As a financial instrument, which gives rise to a financial liability for the parent entity, when this entity presents its financial statements separate from the consolidation of the group, it must apply section 12, or alternatively the provisions contained in IAS 39.

One country-member does not agree with View 2 and believes that View 1 of the Q&A Basis for Conclusions is appropriate because it questions whether the *IFRS for SMEs* Standard has sufficiently specific requirements for accounting for financial guarantees, arguing that it is not clear that a financial guarantee is a financial liability that falls within the scope of Section 12, *Other Financial Instrument Issues*. As a result, it believes that the parent entity should account for the financial guarantee issued in accordance with Section 21, *Provisions and Contingencies*, which applies to all provisions, contingent liabilities and contingent assets except those provisions covered by other sections of the *IFRS for SMEs* Standard. If Section 21 applied, pursuant to paragraph 4(b) of that section if the parent considers it is probable that the subsidiary will not repay the loan to the bank, the parent would recognize a provision, otherwise, only disclosure is necessary.