

Comprehensive Review of the *IFRS for SMEs*® Standard— Scope of the IFRS for SMEs Standard

Advisory Council
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Matt Tilling
Nkumbulo Mabaso

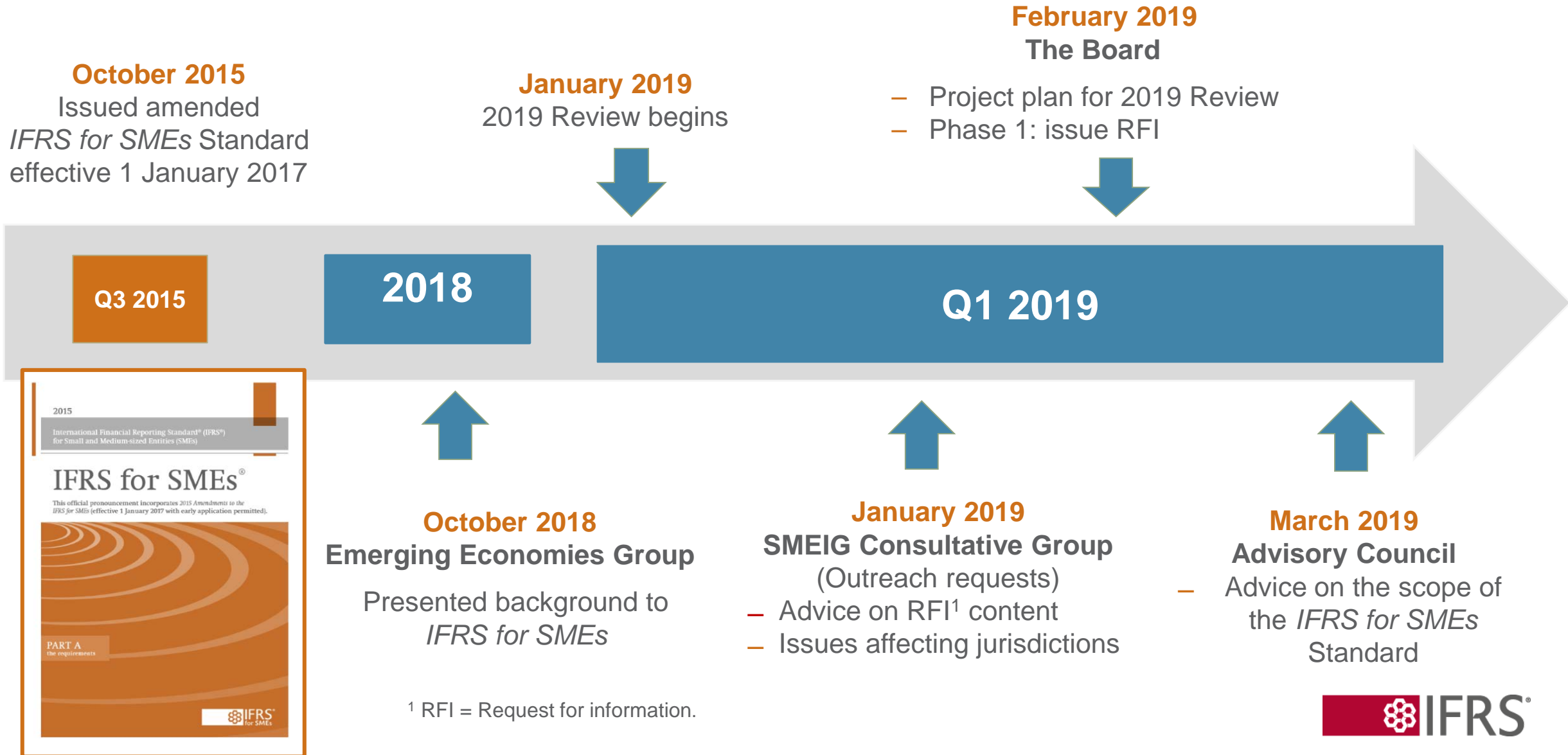
The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.

- The International Accounting Standards Board (Board) is reviewing the *IFRS for SMEs* Standard (2019 Review).
- The views of Advisory Council members will help us develop recommendations for the Board.

As a part of its 2019 Review:

Should the Board extend the scope of the *IFRS for SMEs* Standard to include some publicly accountable entities?

2019 Review—Status



The *IFRS for SMEs* Standard

- 250 pages long
- Based on principles from IFRS Standards
- Tailored for small and medium-sized entities (SMEs) that are not publicly accountable
- Focuses on information needs of lenders and other users of SME financial statements



Why the Board decided to develop the Standard

Is developing a Standard for SMEs consistent with the Board's mission?

Yes: mission includes taking account of 'the needs of a range of sizes and types of entities in diverse economic settings'.¹

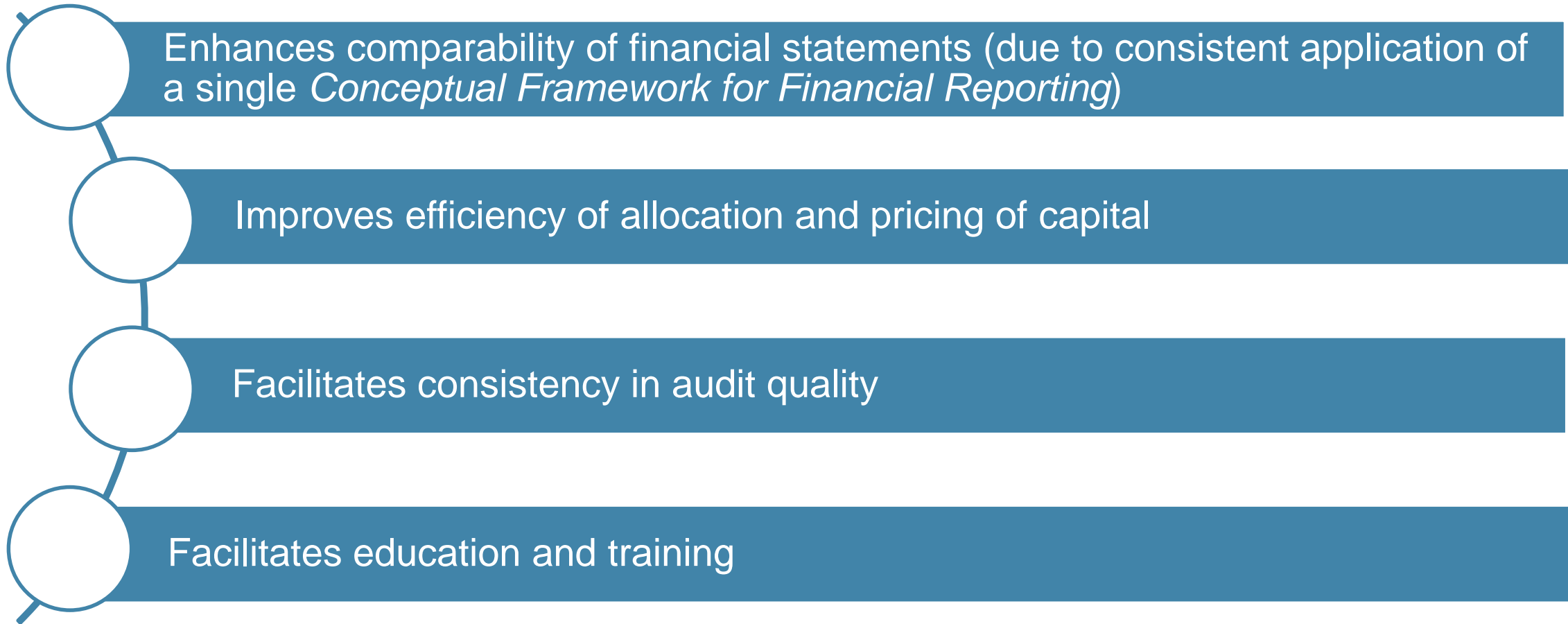
Do national standard-setters support the Board developing such a Standard?

Yes

The Board decided to develop a Standard for SMEs.

¹ IFRS Foundation *Constitution* para 2(c) (December 2018).

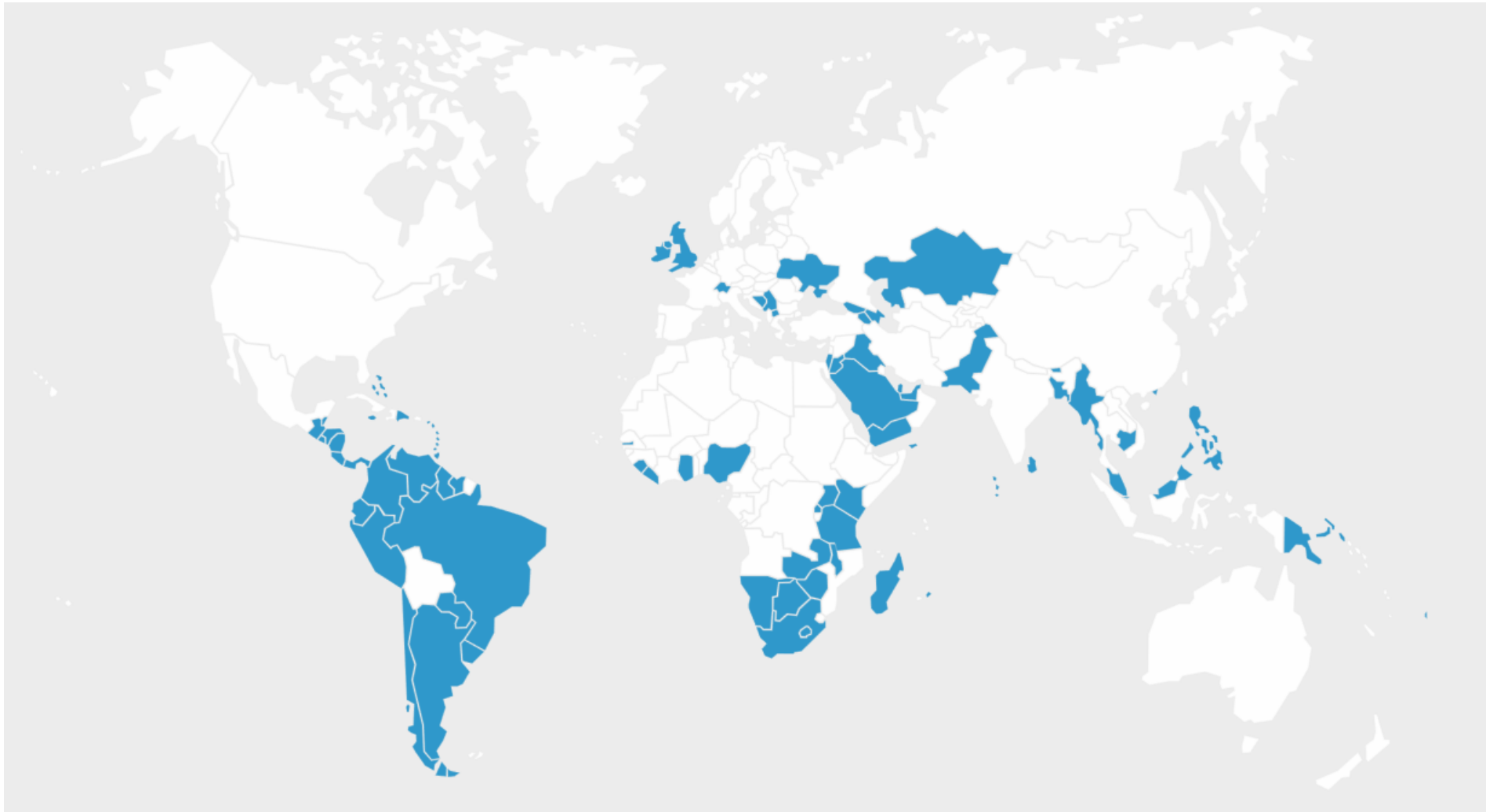
Benefits of a global standard for SMEs¹



¹ Paragraph BC36 of the *IFRS for SMEs* Standard.

Adoption of the *IFRS for SMEs* Standard

86 of **166** jurisdictions require or permit use of the *IFRS for SMEs* Standard.



IFRS for SMEs Standard—Defining the original scope

In developing the *IFRS for SMEs* Standard, the Board considered whether the following types of entities should be permitted to use the Standard:

- entities whose securities are traded in public markets
- financial institutions that hold assets in a fiduciary capacity
- SMEs providing essential public services
- SMEs that are economically significant in home jurisdictions

In the *IFRS for SMEs* Standard, the Board describes SMEs as entities that:

- are not publicly accountable; and
- publish general purpose financial statements for external users.

External users of SMEs' financial reports

- banks
- shareholders that are not managers
- customers of SMEs
- vendors that sell to SMEs (to make pricing and credit decisions)
- credit-rating agencies (to rate SMEs)



Publicly accountable entity:

Entity's debt or equity instruments are traded on a public market (or it is in the process of issuing such instruments for trading in a public market)



OR

Entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses



The Board has received requests to extend the scope from:

- participants in the 2015 Review
- European stakeholders
- SME Implementation Group (SMEIG) members

Some respondents¹ to the RFI suggested the Board:

- extend the scope to include some publicly accountable entities
- allow jurisdictions to decide whether publicly accountable entities can use the *IFRS for SMEs* Standard
- clarify the meaning of ‘fiduciary capacity’ in the definition of public accountability—the term is interpreted inconsistently across jurisdictions

¹ See paragraphs BC179 and BC182 of the *IFRS for SMEs* Standard Part B.

Amending the scope —What are your views?

The staff plan to recommend that the Board consult on permitting the following publicly accountable entities to apply the Standard:

Entities whose securities are traded in public markets:

- if these entities are small or narrowly held; and
- if their securities are traded in alternative markets.

Entities holding assets in a fiduciary capacity:

- small financial institutions eg small credit unions, small private banks and small building societies

Entities whose securities are traded in public markets

The staff plan to recommend that such entities should be permitted to apply the *IFRS for SMEs* Standard

only if:

- their shares are traded on an alternative market
- their shares are closely held
- their shares are not regularly traded
- their shareholders unanimously agree

Entities that hold assets in a fiduciary capacity

The staff plan to recommend that such entities should be permitted to apply the *IFRS for SMEs* Standard **only if**:

- they have a strictly defined and limited group of members
- they have fewer than a specified number of members
- their members unanimously agree

Allowing some publicly accountable entities to apply the *IFRS for SMEs* Standard—Potential advantages

For preparers of financial statements

- reduced cost of preparing financial statements
- improved financial reports

Other advantages

- increased global adoption of the *IFRS for SMEs* Standard
- improved financial reports for investors
- benefits to lesser-resourced entities from simplified requirements

Allowing some publicly accountable entities to apply the *IFRS for SMEs* Standard—**Potential disadvantages**

- **Increased complexity** of the *IFRS for SMEs* Standard
- **Increased cost** of maintaining the *IFRS for SMEs* Standard
- **Reduced information to users** (including regulators) of financial statements prepared by entities that apply the *IFRS for SMEs* Standard instead of full IFRS Standards
- **Reduced comparability** of financial statements

1. What are your views on the staff proposal that the Board consults on permitting some publicly accountable entities to apply the *IFRS for SMEs* Standard?

2. Do you agree with staff proposals if some publicly accountable entities apply the *IFRS for SMEs* Standard this should be subject to the restrictions described on slides 15–17:
 - a. entities whose securities are traded on a public market?
 - b. entities that hold assets in a fiduciary capacity?



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