IFRS as a trusted language for private firm credit decisions

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Introduction

• Thanks to the authors for the paper

• A lot of the focus in IFRS world tends to be on publicly accountable entities in developed 1st world economies
  – Focus in this paper on private entities applying both IFRS and IFRS for SMEs

• Regional reach in developing regions:
  – Africa, Asia-Pacific and Latin America
  – Over 100 bankers interviewed across these regions
Comments on findings
IFRS vs IFRS for SMEs

• Confirmed that IFRS/IFRS for SMEs superior to local non-IFRS based GAAP

• Further analysis into:
  – In countries where both are available, what percentage use SMEs
  – At what point bankers see more value in IFRS than IFRS for SMEs
  – Impact of one framework vs another when assessing cost of borrowings
Gap analysis

Gold Standard (RP1)
- IFRS
- Regulation
- Audit

More feedback on the impact of each component on trust – Roadmap based on figure 1

Challenges
- Local GAAP
- Weak informal regulation
- Unreliable/untrusted audit
Use of additional information in lending decisions

- Information on owners, directors and managers cited as an example. Are there other aspects included in Management Commentary that would be considered in making assessments

- Is the tax information that is used based on IFRS or IFRS for SMEs reporting
Auditing

• High quality auditing is cited as a major factor in the acceptance of financial reports.
  
  – What is a low quality auditor?
  
  – Reasons for the low quality audit (linked to financial reporting):
    • Are the standards too complex
    • Education in the market
Adoption

- One of the challenges on the adoption of IFRS for SMEs in Zimbabwe was that there was no strong regulation of private company reporting.
  - Does this challenge also impact private companies reporting under IFRS?

- Education of the market was also seen as a challenge with the adoption of the SME standard.
  - Do you believe the foundation has a role to play?
Conclusion

• Positive to hear that IFRS is seen as the gold standard for company reporting
  – Accepting the limitations imposed in the local market

• Positive to hear that some countries see IFRS for SMEs as an improvement from local GAAP (where this was applied)

• Is value in exploring some of the issues

• Thanks again to the authors!