

**International  
Accounting Standards  
Board**

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*This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.*

### **INFORMATION FOR OBSERVERS**

**SAC Meeting:** February 2008, London  
**Project:** International Financial Reporting Standard for Small and Medium-sized Entities (SMEs)  
*(Agenda Paper 3)*

- 
1. IASB Exposure Draft
    - a. Issued 15 February 2007
    - b. Comment deadline was 30 November 2007
  2. At the February 2007 SAC meeting (a year ago):
    - a. Staff summarised the ED.
    - b. SAC discussed the questions in the invitation to comment.
  3. At the February 2008 SAC meeting:
    - a. The remainder of this agenda paper contains the slides that staff will use for the discussion at the SAC meeting.
    - b. Review what has happened since the ED was published, including:
      - i. Translations
      - ii. Outreach
      - iii. Compliance questionnaire
      - iv. Staff overview
      - v. Private publications
      - vi. Comment letters – preliminary analysis
      - vii. Field tests – preliminary analysis

- viii. Need for more information on disclosures
- ix. Issues relating to adoption of the IFRS for SMEs
- x. IASCF training
- c. Very preliminary analyses of comment letters and field tests:
  - i. This agenda paper identifies 20 broad issues that, on preliminary analysis, seem to recur in the comment letters.
  - ii. These are identified on Slides 19-24.
  - iii. **SAC members are invited to give their views on these issues.**
- d. Plan for completion of IFRS for SMEs
  - i. **SAC members are invited to give their views on the plan.**



# **IFRS for SMEs: Moving from ED to Final Standard**

**Paul Pacter**

**IASB Director of Standards for Small and Medium-sized Entities**

**Standards Advisory Council  
London**

**14 February 2008**

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## **Agenda**

- **ED was issued 15 Feb 2007**
- **Last SAC discussion 27 Feb 2007**
  - **Breakout discussions of ITC questions**
- **Not discussed at SAC June or Nov**
- **Today let's discuss:**
  - **What's happened since the ED**
  - **Very preliminary analyses of comment letters and field tests**
  - **Plan for completion of IFRS for SMEs**

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## First – Brief Review: Global Context

- **GAAP reporting required by law for all or most private companies?**
  - **Most of the world: generally YES.**
    - **Europe: 5,000,000 companies must prepare GAAP f/s and have audit by law**
    - **Similarly for most other countries**
  - **USA: Generally NO.**
    - **5,000,000 private corporations: No**
    - **15,000,000 other business: No**
    - **15,000 SEC → FASB GAAP by law**

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## Global Context: Statutory Reporting

- **GAAP reporting by SMEs today:**
  - **Many jurisdictions require or permit full IFRSs**
  - **Many jurisdictions require national GAAP, which increasingly are converging with IFRSs**
  - **Concerns:**
    - **Burden? Meet SME user needs? Quality of implementation by SMEs?**
  - **Many countries have their own SME standards**
    - **Not consistent with Framework**
    - **Not general purpose f/s**
    - **Not “fair presentation” or “true and fair”**
    - **User confidence in the information?**

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## Use of Full IFRSs Around the World

For domestic <u>listed</u> companies:	Number of Jurisdictions
IFRSs required for all	82
IFRSs required for some	4
IFRSs permitted	24

Today, IFRSs are used by listed companies in over 100 jurisdictions.

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## Use of Full IFRSs Around the World

For domestic <u>unlisted</u> companies:	Number of Jurisdictions
IFRSs required for all	28
IFRSs required for some	19
IFRSs permitted	36

Today, IFRSs are used by unlisted companies in over 80 jurisdictions.

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## IASB Exposure Draft

- **IASB's proposed IFRS for SMEs:**
  - Simplified principles tailored for SMEs
  - Self-contained (nearly)
  - Based on full IFRSs, which are developed for public capital markets
  - Modifications based on:
    - User needs
    - Cost-benefit
  - General purpose f/s

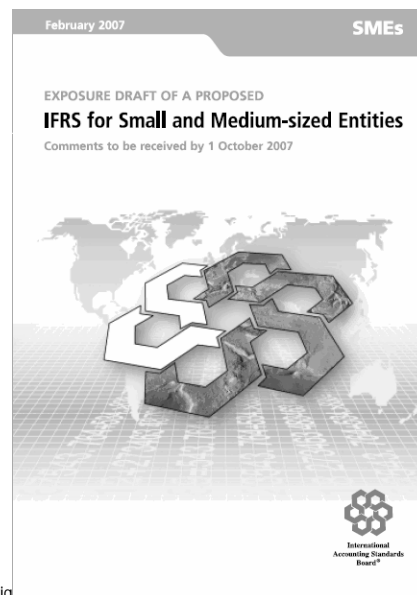
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## Exposure Draft – IFRS for SMEs

- Organised by topic
- ED 254 pages
  - Plus illustrative financial statements, disclosure checklist, basis for conclusions
- Board vote: 13 to 1
- Published:
  - 15 February 2007
- Comment deadline:
  - 30 November 2007



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## **Simplifications**

**Five kinds of simplifications based on user needs and cost-benefit tradeoffs:**

- 1. Some topics in IFRSs omitted if irrelevant to SME**
- 2. Where IFRS has options, include only simpler option**
- 3. Recognition and measurement simplifications**
- 4. Reduced disclosures**
- 5. Simplified drafting**

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## **Activities Since the ED Was Issued**

- Since ED was issued:**
  - Translations**
  - Outreach**
  - Compliance questionnaire**
  - Staff overview**
  - Private publications**
  - Comment letters**
  - Field tests**
  - IASCF training**

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## Activities Since the ED Was Issued

- **Translations of the ED**
  - **First time ever – very well received**
  - **Posted on IASB website**
  - **French**
  - **Spanish**
  - **German**
  - **Romanian**
  - **Polish**

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## Activities Since ED Was Issued Extraordinary staff outreach effort

- **95 roundtables and presentations in 39 countries in past four years**
- **Including 40 since the ED was issued – see next slide**
- **Plus 6 SAC and 5 WSS**
- **Plus many Board member speeches**
- **Published articles since the ED:**
  - **7 since the ED, in English, Spanish, German, Russian**

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## Roundtables Since ED Was Issued Audience: National, Regional, Global

Canada	N N N N R	Turkey	R
France	N	Austria	N
USA	G G N	Singapore	R
Spain	N N	Poland	N
Namibia	R	Hungary	N
Indonesia	N	Malta	G N
UK	N N G	Dubai	G
Germany	R N N	Thailand	N (Video)
Belgium	R	Honduras	N (Video)
Switzerland	R	Ukraine	R
S. Africa	N N	El Salvador	R
Holland	N	Romania	N
Mexico	R	Malaysia	R

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## Activities Since ED Was Issued

- Examples of key groups met with:
  - IFAC Board and IFAC CEOs
  - EU Parliament Econ Committee (x 2)
  - FASB-AICPA Private Companies Financial Reporting Committee
  - IOSCO Emerging Markets Committee
  - IAASB Consultative Advisory Group
  - European Central Bank Task Force
  - FASB Board and staff

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# Activities Since ED Was Issued

## Compliance questionnaire

Reference	References of IFRS for SMEs	Page No.
*	Objective (Basis) of the Standards project introduction	2
*	Modeling and application	3
1.1a	Accounting principles applied to each financial statement	3
1.1b	Accounting principles applied to each financial statement for disclosures	3
1.1c	First-time adopter - measurement of those not included in their costs - identification of contracts requiring the business decisions to be made on the date of the financial statements. Identifiability depends on the date value of the contract or measurement subject to the underlying uncertainties. The date or value of the stock, or a combination of both, could be determining factor	3
*	Classification of financial statements	3
1.1d	First-time adopter paragraph 2.17 of the draft IFRS for SMEs (see disclosure) - the first financial statements should be subject of the financial period for all financial statements for the period of the financial statements (including the period of the financial statements in the form of separate and of financial statements under the entity shall present as if individual that of each of the included financial statements on separate and related notes	3
*	The financial statements of companies include	3
1.1e	Accounting measures	3
1.1f	Accounting measures	3
1.1g	Accounting measures	3
*	Changes in capital structure during their financial statements	3
1.1h	First-time adopter - changes in capital structure during their financial statements - the entity shall present as if individual that of each of the included financial statements on separate and related notes	3
1.1i	First-time adopter - changes in capital structure during their financial statements	3
1.1j	First-time adopter - changes in capital structure during their financial statements	3
1.1k	First-time adopter - changes in capital structure during their financial statements	3
1.1l	First-time adopter - changes in capital structure during their financial statements	3
1.1m	First-time adopter - changes in capital structure during their financial statements	3
1.1n	First-time adopter - changes in capital structure during their financial statements	3
*	Identification of the financial statements	3

- Checklist of all recognition and measurement requirements
- 111 pages
- Prepared by Big-4 firm
- Posted on IASB website May 2007
- For field testers and others to use in understanding and applying the ED

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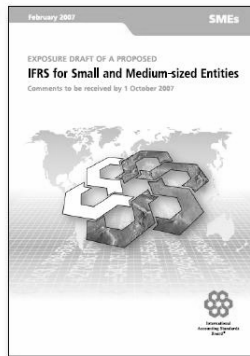
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# Activities Since ED Was Issued

## Staff overview of ED

### A Staff Overview



This overview of the IASB's exposure draft of a proposed International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) was prepared by Paul Pacter, IASB Director of Standards for SMEs. It is intended as a high level introduction to the exposure draft. It has not been approved by the International Accounting Standards Board. Nor is it intended to serve as the basis for commenting on the exposure draft.

- Explains the ED (what's proposed, for who, and why) in question and answer format
- Posted on IASB website April 2007
- 17 pages

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# Examples of Private Publications

PRICEWATERHOUSECOOPERS

IFRS for SMEs (proposals)  
Pocket Guide 2007



PWC Pocket  
Guide to ED

Accounting and Accountability for Regional Economic Growth

CreCER



The World Bank and the Inter-American Development Bank are committed to endorse this agenda through: (1) supporting and promoting regular and systematic dialogue with IASB heads to develop and prioritize policy reforms, (2) offering systematic support for IASB human resources development, recognizing their audit methodologies and improving their external relations, communication and outreach practices in conjunction with other development partners, (3) developing innovative interactions e.g., Memoranda of Understanding for joint oversight of compliance, quality and results and stepping up interventions at the regional level in order to launch a joint-venture to foster and channel efforts that otherwise are too small to produce systemic impact and sustainable results, and, finally, (4) fostering stronger inter-institutional collaboration, peer-learning and peer-reviews, through the creation of community of practices and of a knowledge-sharing network across LAC countries and with other IASs across the world.

International Accounting Standards Board: A message from Paul Pacter, Director of Standards for SMEs, IASB

The comment deadline on the IASB's proposed International Financial Reporting Standard for SMEs is October 1, 2007. To encourage responses from Latin America and the Caribbean, we have translated the exposure draft into Spanish and French (available on [www.iasb.org](http://www.iasb.org)). We think the IASB's IFRS for SMEs will be strongly valued for the many small businesses in the region. As with all IASB proposals, there is always room for improvement and this is precisely the point of our public comment process. For this reason we strongly encourage SMEs in the region, as well as small audit practices, lenders and others who provide capital to SMEs to take a look at our proposal and give us your views.



Financial Accounting glossary

We are now finalizing the exposure draft, and you can help us by encouraging our SMEs to recall their most recent financial statements using the proposed IFRS for SMEs and let us about the problems they encountered. The field test questionnaire is available on the IASB's website in Spanish and French, as well as in English. We are waiting for the test results to be submitted by October 21, 2007. For a quick introduction to the proposal, here is a 17-page staff summary, in Spanish and French. Please refer to the IASB's website for the full exposure draft. This is a great opportunity for the Latin American and Caribbean region to help shape a standard that, we believe, will improve SMEs' access to capital. Please help us by commenting and getting involved in the field tests.

Argentina: Central Bank Takes Steps to Strengthen Public Trust in External Audits. Héctor Daniel Domínguez, Deputy General Manager, Enforcement Division, Central Bank of Argentina



World Bank  
Newsletter to Latin  
Amer & Caribbean

ACCA ECSAFA  
Summary of ED

Small and Medium Entities  
of the Exposure Draft

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# Comment Letters

- 159 comment letters
  - 13 in other than English (we had them translated):
    - Spanish 8
    - French 3
    - German 1
    - Portuguese 1
  - Of course, all are on [www.iasb.org](http://www.iasb.org)

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## Issues in Letters - Preliminary

1. Eliminate all cross references to full IFRSs (nearly 70%)
2. All or most options in full IFRS should be available to SMEs (yes 2 to 1)
3. Simplify income taxes (but how?)
4. Consolidation and cash flow statement – exempt smaller entities or allow jurisdiction to decide
5. Amortise goodwill & other intangibles

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## Issues in Letters - Preliminary

6. Question suitability for micro entities (under 10 employees)
  - a. But unclear if general purpose F/S
7. PP&E – Don't require:
  - a. Component depreciation or
  - b. Annual revision to life and residual value
8. Clarify use of IFRS for SMEs by subsidiary of a full IFRS entity
  - a. Let SME use R&M principles in full IFRSs but disclosure from IFRS for SMEs

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## Issues in Letters - Preliminary

9. Simplify defined benefit pension plans:
  - a. Allow other options for actuarial G/L
  - b. Don't require actuarial method – eg, measure at current liquidation amount
  - c. Treat multiemployer as defined contrib
10. Simplify share-based payment. Intrinsic value not much of a simplification
11. Leases – do not require:
  - a. Straight-line for operating, or
  - b. Finance lease measured only at FV

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## Issues in Letters - Preliminary

12. Impairment:
  - a. Allow value in use
  - b. Consider future use to decide FV or value in use
  - c. Simplify goodwill impairment test
13. Debt - equity classification
14. Further disclosure simplifications
  - a. But few specifics
  - b. Survey of users is planned
15. Find better term than 'SME'

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## **Issues in Letters - Preliminary**

- 16. Require a more standardised F/S format – too many options now**
- 17. Associates & JVs – too many options**
- 18. In general, fewer restatements of prior periods than now proposed**
- 19. Restrict use of FV to:**
  - a. Market price is quoted or readily determinable without undue cost or effort, plus**
  - b. All derivatives**

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## **Issues in Letters - Preliminary**

- 20. Financial instruments:**
  - a. Cost default, not fair value**
  - b. Straight line, not effective interest**
  - c. Shortcut method for hedging**
  - d. Allow purchased options and debt instruments as hedging instruments**
  - e. Clarify derivatives and embedded**
  - f. Guidance on factoring**
  - g. Do not allow reversion to full IAS 39**

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## Field Tests

Questionnaire in English, French, Spanish

- 115 SMEs from 20 countries finished
- Many under 50 employees
- Restated most recent financials
- Answered questionnaire
- Goals were to assess:
  - Understandability of ED
  - Scope of issues
  - Burden of applying, including cost
  - Impact
  - Accounting policy choices
  - Adequacy of guidance

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## 115 Field Test Companies

Argentina	Italy	South Africa
Australia	Kenya	South Korea
Barbados	Malawi	Tanzania
Denmark	Malaysia	Tunisia
France	Netherlands	United Kingdom
Germany	Nigeria	United States
India	Poland	

Europe: 56

Africa: 23

Asia-Pacific: 36

Americas: 3



## Field Test Results

- **Very preliminary observations:**
  - **Few companies had problems applying the ED**
  - **Main issues were:**
    - **Determining fair values**
    - **Computing deferred taxes**
    - **First time: Equity and cash flow statements**
  - **Minimal incremental cost**

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## IFRS for SMEs in Europe

- **Decision rests with Member States:**
  - **Whether**
  - **Which companies**
  - **When**
- **IAS Regulation neither requires nor prohibits MS to use IFRS for SMEs**
- **Consistent with 4<sup>th</sup> and 7<sup>th</sup> Directives**
- **Nearly all EU MS now either require or permit all SMEs to use full IFRSs (next slide)**

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## IFRS for SMEs in Europe

Under IAS Regulation, MS may require or permit IFRSs for unlisted companies. Status:

Consolidated F/S		Separate Statements	
IFRSs required	IFRSs permitted	IFRSs required	IFRSs permitted
CY, MT, SK. Banks: BG (also large), EE, LV, LT, PO, SI	AT, BE, DK, FI, FR, DE, GR, IT (x small), IE, LV, NL, PT, ES, SE, UK, NO, IS, LI, CZ, EE, HU, PO (some), BG	CY, MT. Banks: BG (also large), EE, LV, LT	DK, FI, DE, GR, IT (x Ins & small), LU, NL, PT (some), UK, NO, IS, LI, EE, PO (some)



## Potential Adoption in EU

- **Denmark (EU):**
  - Planning legislation to permit
- **UK (EU):**
  - Likely to permit for all unlisted but also keep FRSSE for micros
- **Bulgaria (EU):**
  - Most accounting professionals “strongly support adoption”
  - “Definitely our national standards will be replaced by the IFRS for SMEs”
  - “The only question is when, not if”

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## **Obstacles to Adoption in EU**

- **National laws require national GAAP if not IFRS**
  - **Not easy to change law**
- **SME financial statements primarily used for taxes and determining distributable income**
  - **“Need local standards based on tax”**
  - **But – do they also go to bank and others?**
- **Wait until required by EU law or regulation**
- **Sovereignty issues**
- **Think ED is still too complex**

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## **Adoption in EU**

- **In recent meetings, Trustees reminded both the Commission and the Parliament that during the 2004 constitutional review the Commission specifically asked that the development of an SME standard should be prioritised**
  - **It is clear that, for various reasons, this point has been forgotten.**

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## **"Early Adoption" – South Africa**

- SA law had required all companies to publish F/S using IFRS or SA GAAP
- But SA GAAP became IFRS word for word ('100% convergence')
  - Big burden for small companies
- Spring 2007 legislation required SAICA to adopt an SME GAAP
- Oct. 2007 SAICA chose to adopt IFRS for SMEs as required SA GAAP for those SMEs that don't choose full IFRSs

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## **"Early Adoption" – South Africa**

- Writing in Dec. 2007 *Insight*, the SAICA CEO said:  

**"The majority of companies in South Africa will use it. It is very welcome. The standard in its current form already offers SMEs real relief, and when the final standard comes it will be even better."**

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## Interest in the United States

- **Could private companies in the USA use the IFRS for SMEs?**
- **Does not appear to be a reason why not:**
  - **No statutory audit requirement in US**
  - **Basis of presentation note would refer to conformity with IFRS for SMEs**
  - **If audited, auditor would report on conformity with IFRS for SMEs**
- **PCFRC: Discussed with them 11/1/08**
- **Strong support from FEI**

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## IASCF Training Materials for SMEs

- **Developed by IASC Foundation**
  - **One module per Section (ED has 38 sections). Example:**
    - **Sec. 16 PP&E is 7 A5 pages long**
    - **Training module is 32 A4 pages, many examples, good stuff!**
  - **Finish by mid/late 2009**
  - **Multiple languages**
  - **Free of charge!**
  - **Train the trainers**
- **Software? Yes commercial, not IASB**

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## **Steps to Completion of IFRS for SMEs**

- **Work plan to Board: March 2008 meeting**
- **User disclosure survey: By 30 April 2008**
- **Staff analyses of comments and field tests, recommendations for changes to the ED: To the Board April 2008 (education session)**
- **Working Group meet: 10-11 April 2008**
- **Working Group recommendations to Board: May 2008 meeting**

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## **Steps to Completion of IFRS for SMEs**

- **Board redeliberations of ED: May-June-July 2008**
- **Revised full draft to Board : September 2008**
- **Board review draft of final IFRS: Starting October 2008**
- **Final Standard: Goal is December 2008**
- **Effective: Whenever adopted locally**
- **Training materials: Mid-late 2009**

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**Thank you.  
Questions and  
comments?**

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