

30 Cannon Street, London EC4M 6XH, England
Phone: +44 (0)20 7246 6410, Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>



This document is provided as a convenience to observers at the Standards Advisory Council meeting, to assist them in following the discussions. 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 papers prepared for the SAC meeting. Paragraph numbers correspond to paragraph numbers used in the SAC agenda paper.

INFORMATION FOR OBSERVERS

SAC Meeting: November 2008, London

**Project: International Financial Reporting Standard for Private Entities
(SMEs) - Progress toward a Final Standard**

(Agenda Paper 10)

-
1. Attached to this cover page is the PowerPoint presentation that will form the basis for the discussion of the IFRS for Private Entities at the November 2008 Standards Advisory Council (SAC) meeting.
 2. The IASB's Director of Standards for SMEs will report to the SAC on the key decisions that the Board has made in re-deliberating the Exposure Draft and will identify the issues that remain for the Board to consider. He will also comment on the training materials that are currently being developed by the IASC Foundation Education team and will discuss potential adoptions of the final IFRS for Private Entities.
 3. The views of SAC members will be invited on any of the issues raised in the presentation or other aspects of the project. In particular, slides 32 and 33 raise five specific questions on which SAC members' views would be especially welcome:

Q1 Should the IFRS for PEs allow only the simple options from full IFRSs or all of the options in full IFRSs?

Q2 If all options are allowed, and the IFRS for PEs is to be self-contained, how should the complex options be incorporated into the IFRS for PEs? In each section? Separate appendix?

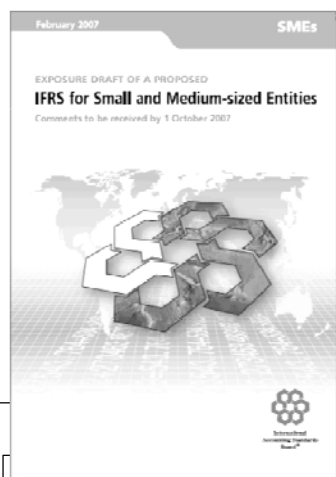
Q3 Even if only the simple options are allowed, should there be a special option to use IAS 39 and IFRS 7 instead of Section 11?

Q4 What are SAC members thoughts on remaining technical issues:

- a. Income taxes: Temporary difference method with simplifications? Partial provisioning for only net amount that is temporarily deferred or accelerated and will reverse in foreseeable future without being replaced?
- b. Share-based payment: Is the staff proposal outlined in slide 20 workable? Under that proposal:
 - Retain the FV measurement principle for SBP.
 - If FV is not reliably measurable using observable data, use a 'market multiple' based on P/E ratio of a listed entity close in size and nature to the private entity.
 - If cannot estimate FV of share options reliably without undue cost or effort, intrinsic at grant date (no subsequent remeasurement).
 - If impracticable to estimate FV of share price reliably, disclosure only.
- c. Measurement of a defined benefit pension obligation at current termination amount? Under the staff's proposal:
 - If sufficient information is not available without undue cost or effort to determine the present value of the defined benefit obligation and related current service cost under a defined benefit plan using the projected unit credit method, or determining the obligation that way would be of questionable usefulness because of the small number of employees involved, an entity should measure the defined benefit obligation of that plan at the current termination amount, i.e., the vested benefit obligation at the balance sheet date assuming all employees

were to terminate their employment as of that date using current salary information and give supplementary disclosures

Q5 What are the prospects for adoption of the IFRS for PEs in your jurisdiction?



IFRS for Private Entities (formerly IFRS for SMEs)

Paul Pacter, IASB

**Standards Advisory Council
14 November 2008**



Past SAC discussions

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- **SAC discussed this topic and provided views to the Board on:**

Feb 2004	Feb 2005
June 2005	June 2006
Feb 2007	Feb 2008

- **Feb 2008 was just after comment period ended – no analysis or Board decisions**
- **Now, most decisions have been made**



SAC discussion today

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- **Report key decisions made, both further simplifications and decisions not to amend the ED**
- **Identify remaining issues for the Board to consider**
 - Invite SAC members' views
- **IASCF Training**
- **Potential adoptions and concerns**
- **SAC members' additional comments**

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Why is the IASB doing this project?

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- **Requested by old IASC, nearly all national standard setters, IASCF, SAC, EC, FEE**
- **Improved access to capital**
- **Improved comparability**
- **Improved quality of reporting as compared to existing GAAP**
- **Focus on needs of private entities' users**
- **Ease burden where full IFRSs or full national GAAP are now required**

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IASB Exposure Draft

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- **Organised by topic ED is 254 pages, plus:**
 - Financial statements
 - Disclosure checklist
 - Basis for conclusions
- **Board vote: 13 to 1**
- **ED issued: 15 February 2007**
- **Translated: 5 languages**
- **Comment deadline was: 30 Nov 2007**
- **Re-deliberations are mostly completed**

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About the ED

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- **Simplified principles tailored for smaller, private entities that:**
 - Do not have public accountability
 - Issue general purpose financial statements
- **Based on full IFRSs, which are developed for public capital markets**
- **Simplifications based on:**
 - User needs
 - Cost-benefits

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Who are we aiming at?

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In most countries, only 1% of businesses have over 50 employees. United Kingdom (2007):

	Number	Percent
Total Entities	4,679,000	100.0
Owner run (no employees)	3,460,000	74.0
1 – 9 employees	1,019,000	21.7
10 – 49 employees	167,000	3.6
50 – 99 employees	17,000	0.4
100 – 199 employees	8,000	0.2
200 – 499 employees	5,000	0.1
500 or more employees	3,000	0.1

Who are we aiming at?

8

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	Number	Percent
Total Entities	4,679,000	100.0
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500 or more employees	3,000	0.1

Over 50 employees are only 8/10th of 1%. And many of those are 'publicly accountable' (full IFRSs).

Who are we aiming at?

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- **Which entities must produce general purpose financial statements is not IASB's decision:**
 - Public interest issue addressed by legislature and regulators
- **Present fairly financial condition, performance, and cash flows**
- **For external capital providers and others**

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How did we simplify?

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

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Extensive outreach and consultation

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- **Presentations at 104 conferences and roundtables in 40 countries (55 since ED was issued)**
- **+ 14 SAC, IASCF, and WSS meetings**
- **8 published articles (+ 2 more USA soon)**
- **Field tests with 116 very small companies**
 - **Field test questionnaire in English, French, Spanish**
- **162 comment letters**

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Board redeliberations so far

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March 2008 – analysis of comment letters

April 2008 – analysis of field test results

May, June, July, September 2008 – Board review of ED section by section, several hundred decisions, many simplifications. Some issues deferred for further research.

September 2008 – Board decisions on disclosure issues

October 2008 – Board decisions on some of the deferred issues

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Re-deliberations: key issues/decisions

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Cross-references to full IFRSs

- **Decision**: Should be fully stand alone
- **Decision**: Drop cross-references by bringing in 'complex options' and a few omitted topics:
 - Finance leases
 - Share-based payment
 - FV of agricultural assets
 - Hyperinflation

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Re-deliberations: key issues/decisions

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Do not anticipate changes to full IFRSs

- **Decision**: Consider issue by issue
- 'SME' in title implies a 'size test'**
- **Decision**: Changed to Private Entity

Impairment

- **Decision**: Add 'value in use' measurement and 'cash generating unit' notion like IAS 36
- **Decision**: Some simplifications for measuring impairment of goodwill

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Re-deliberations: key issues/decisions

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Historical cost model should be default

- For non-financial assets, it essentially is
- For financial assets, ED is amortised cost for receivables, payables, loans, loan commitments, and non-publicly traded equity
- But ED is presented as FV model, and if there is embedded, entire instrument at FV
- Always a 'reliability exception' for FV
- Decision: Split out 'plain vanilla' instruments in separate cost-based section. Many SMEs won't need to look at the other section.



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Re-deliberations: key issues/decisions

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Income taxes

- Board is considering two approaches:
 - Temporary differences (as in ED) with some simplifications
 - 'Partial provision' for net amount that is temporarily deferred or accelerated and will reverse in foreseeable future without being replaced
- On agenda next week



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Re-deliberations: key issues/decisions

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Consolidation – reduce or eliminate

- **Decision:** Consolidated f/s required for virtually all groups (as proposed in ED)

Amortise goodwill and other intangibles

- **Decision:** Impairment test only for G/W and other limited life intangibles (as in ED)



Re-deliberations: key issues/decisions

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Fair value – reduce and clarify

- **Decision:** Replace term FV with clear description of what is to be measured. Staff will come back to Board with proposals.

Standardise presentation of financial statements

- **Decision:** Conform to revised IAS 1
- **Decision:** Include a statement of comprehensive income



Re-deliberations: key issues/decisions

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Pensions

- **Decision:** All actuarial G/L recognised immediately in profit or loss (as in ED)
- **Decision:** All past service cost recognised immediately in profit or loss (as in ED)
- Staff will present proposal next week for measuring pension obligation at current termination amount and allowing actuarial G/L outside of P&L in Other Comprehensive Income

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Re-deliberations: key issues/decisions

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Share-based payment

- Comment letters said intrinsic value isn't a simplification
- Board will discuss in Nov 2008
- Staff propose to retain FV principle. If FV not reliably measurable using observable data, use a 'market multiple' based on P/E ratio of a listed entity close in size and nature to the private entity. If cannot, intrinsic value at grant date. If impracticable, disclose.

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Re-deliberations: key issues/decisions

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Debt-equity classification

- **Decision**: Incorporate recent 'puttables' changes
- **Decision**: Continue to require 'split accounting'

Further disclosure simplifications

- With help of the Working Group, staff proposed many simplifications
- **Decision**: In September 2008 Board agreed with nearly all WG and staff recommendations

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Remaining issues not yet decided

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Income taxes – Nov 2008

Share-based payment – Nov 2008

Incorporation of interpretations

IFRIC 4, 8, 12, and 15 – Nov 2008

SIC 12 – Dec 2008

**Pensions: current termination amount and
multiemployer plans – Nov 2008**

**Complete rewrite of financial instruments
section – Dec 2008**

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Remaining issues not yet decided

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Possible replacement of the term “fair value” – Dec 2008

Option to use IAS 39/IFRS 7 – Dec 2008

Assessing impairment of goodwill – Dec 2008

Whether to incorporate Framework changes – Dec 2008

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Remaining issues – reconsideration

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Amortisation of goodwill and other indefinite life intangibles – Dec 2008

Title of the standard – Nov 2008

Actuarial gains and losses – Nov 2008

Consolidation – Dec 2008

How to address the complex options – Dec 2008

Incorporate new JV standard? – Dec 2008

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Redrafting of the ED

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January to March 2008

- Reflect all Board decisions
- Additional guidance examples
- Editorial corrections and improvements
 - Many indentified in comment letters
- Send pre-ballot draft to Board
- Then one or more ballot drafts
- Then, finally, the ballot (vote)

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Re-exposure? IASB handbook says:

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In considering re-exposure, the IASB

- Identifies substantial new issues arising in ED comments not previously considered
- Assesses evidence that it has considered
- Evaluates whether it has understood the issues and sought views of constituents
- Considers whether the various viewpoints were aired in the ED and adequately discussed and reviewed in the ED basis for conclusions

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IASCF training materials for PEs

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Being developed by IASC Foundation

- **One module per Section (ED has 38 sections).**

To illustrate:

- **Section 16 PP&E is 7 A5 pages long**
 - **Training module is 32 A4 pages, many examples, cases, quiz.**
- **Finish by mid/late 2009**
 - **Multiple languages**
 - **Free of charge**
 - **IASCF train the trainers**

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Use in the United States

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Could private companies in the US use the IFRS for Private Entities?

- **No reason why not**
- **No statutory audit requirement in US**
- **Basis of presentation note would refer to conformity with IFRS for PEs**
- **If audited, auditor would report on conformity with IFRS for PEs**

AICPA: Designated IASB under Rule 203

Considerable support in US

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Use in Europe

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IAS regulation applies only to full IFRSs

- IFRS for PEs not required or prohibited
- Each jurisdiction must decide
- We believe it is consistent with Directives

EC staff and some MEP stated concerns – not enough simplifications

- Hint at developing an EU SME standard

Expressed interest in adopting:

- Denmark, Norway, UK, Sweden, others

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Use elsewhere

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South Africa

- Already adopted the ED as their final standard

World Bank, IDB, other development agencies

- Strong support, \$ for training
- Major conferences for Latin America and Eastern Europe/Balkans

Others under serious consideration

- Latin America, Australia

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Next steps

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Board re-deliberations: Finish by Dec 2008

Pre-ballot draft and ballot drafts: 1Q 2009

Final Standard: Vote late 1Q 2009

Effective: Whenever adopted locally

Training materials: Mid-late 2009

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Questions for SAC discussion

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- 1. Should IFRS for PEs allow only simple options or all options in full IFRSs?**
- 2. If allow all options, how to incorporate the complex options into IFRS for PEs? In each section? Separate appendix?**
- 3. Even if allow only simple options, should there be an option to use IAS 39 and IFRS 7 instead of Section 11?**

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Questions for SAC discussion

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4. **Thoughts on remaining technical issues:**
 - Income taxes: temporary? partial?
 - SBP: staff proposal workable (slide 20)?
 - Pension at current termination amount?
5. **Prospects for adoption in your jurisdiction?**

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Questions or comments?

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**On any aspect of presentation or the project.
Continues after tea/coffee break.**

Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.



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