

# AGENDA PAPER

IFRS Foundation Trustees meeting

Washington, DC 10-12 July 2012

Agenda ref 5

## Update on the IFRS for SMEs

Paul Pacter, Board Member and Chairman of SMEIG

This paper updates the Trustees on the IFRS for SMEs, which was issued in July 2009 and has already been adopted by over 80 jurisdictions. We estimate that in 2011 well over ten million SMEs are using the IFRS for SMEs around the world.

The appendix to this paper (starts on page 4) contains a detailed update.

There are five matters that I would like to highlight for the Trustees:

- 1. Our efforts to provide implementation guidance have been very well received. These include:**
  - a. Translations (appendix Section 3)
  - b. Self-study training materials (appendix Section 4)
  - c. Three-day train-the-trainers workshops (appendix Section 5)
  - d. Q&As (appendix Section 6)
  - e. Monthly newsletter (appendix Section 8)
  - f. Executive briefing booklet (appendix Section 9)
  - g. Posting of numerous PowerPoint presentations and some webcasts
  - h. Planned guidance booklet on application of IFRS for SMEs by micro-sized entities (appendix Section 10)
  - i. Comprehensive IFRS for SMEs web pages (appendix Section 11)
- 2. Adoption in Europe (appendix Section 2 paragraph 2(h):**
  - a. Today there are 50 or 60 national SME GAAPs among the 27 EU Member States.
  - b. When IFRS for SMEs was being developed, IASB was urged to develop the standard by the European Commission, European Parliament, EFRAG, and FEE.

- c. European Commission consulted on whether to permit Member States (MS) to adopt the IFRS for SMEs. Result of the consultation was that 19 MS favoured a MS option, 6 opposed (including France and Germany). Commission staff have decided not to proceed with a specific MS option.
- d. EC comparisons with Directives have identified just two substantive (and minor) differences.

### **3. Adoption in the United States (appendix Section 2 paragraph 2(i))**

- a. FAF proposed, and now have decided, to set up a Council to advise FASB on private company issues.
- b. FASB will incorporate private company issues into FASB standards – not separate, simple standard. Unlikely to result in significant changes to principles for recognising and measuring assets, liabilities, income, and expense.
- c. AICPA disagreed strongly with the above approach. AICPA Council passed strongly worded rejection of the FAF proposal. Promoted write-in of 7,000 letters to FAF in response.
- d. Given that FAF has now agreed to this approach, AICPA will develop its own private company GAAP as an Other Comprehensive Basis of Accounting (OCBOA).

### **4. Comprehensive review of the IFRS for SMEs 2012-2014 (appendix section 7)**

- a. Comprehensive Review got underway in 2Q 2012. Plan for three-year reviews was set out in the IFRS for SMEs.
- b. Objective of the review: determine whether there is a need to make any amendments to the IFRS for SMEs and, if so, what amendments should be made. The fact that the IASB is undertaking a comprehensive review of the *IFRS for SMEs* does not necessarily mean that significant changes will be made.
- c. March-2012: staff developed a Request for Information with advice of SMEIG.
- d. May 2012: SMEIG approved RFI and recommended that the Board issue it for public comment.
- e. June 2012: Board voted to issue the RFI. It was posted on IASB website 26 June 2012, comment deadline 30 November 2012.
- f. SMEIG will review comments and provide recommendations to the Board about possible amendments to IFRS for SMEs. SMEIG will meet in London in 1Q 2013.

- g. The Board will approve the Exposure Draft and will approve any final revisions to the IFRS for SMEs.

**5. Reappointments of SMEIG members (appendix Section 6 paragraph 6(a))**

- a. The terms of all 22 SMEIG members ended on 30 June 2012. Michelle Fisher (the IASB's Senior Project Manager on the IFRS for SMEs) and I both are very pleased with how the group has been working (totally by email) and with the quality of input we have received. The comprehensive review is now under way and is scheduled to be completed in the first half of 2014 (possibly late in 2013). Michelle and I believe that there will be considerable benefit to the IASB if the terms of all current SMEIG members were extended for two more years to 30 June 2014 to allow continuity in the comprehensive review process.
- b. Therefore, we have recommended to the DPOC that all 22 current members be reappointed for two-year terms ending 30 June 2014. All are willing to be reappointed.
- c. We further recommend that sometime in the second half of 2013 the Trustees should invite nominations for SMEIG members as of 1 July 2014. We would note that the role of the SMEIG may change as a result of the comprehensive review. One of the issues that will be dealt with in the comprehensive review is whether Q&As should be issued by the SMEIG going forward. New appointments would be effective 1 July 2014. At that time the Trustees may wish to consider whether to have staggered terms and whether any other provisions of the Terms of Reference should be amended.

## Appendix

### Status Report on the IFRS for SMEs

#### 1. Published: July 2009

- a. ‘Good Financial Reporting Made Simple’
- b. 230 pages (full IFRSs are 3,000+)
- c. Simplified IFRSs. Built on an IFRS foundation. Simplifications based on:
  1. User needs for information about short-term cash flows, liquidity, and solvency (rather than longer-term forecasts of earnings and share prices)
  2. Costs and SME capabilities
- d. Completely stand-alone
- e. Final standard was issued July 2009

#### 2. Adoptions: Over 80 countries have adopted or announced plans to do so

- a. **South America:** Argentina, Brazil, Chile, Ecuador, Guyana, Peru, Suriname, Venezuela
- b. **Caribbean:** Antigua & Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
- c. **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
- d. **Africa:** South Africa, Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, Tanzania, Swaziland, Uganda, Zambia, Zimbabwe
- e. **Asia:** Bangladesh, Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Tonga
- f. **Middle East:** Jordan, Lebanon, Palestine, Qatar
- g. **Eurasia:** Azerbaijan, Kyrgyzstan, Moldova, Turkey
- h. **Europe:** Bosnia, Macedonia. Available for use in Switzerland. Planned: United Kingdom, Ireland. Others studying. Note that European Commission has consulted on the IFRS for SMEs (19 Member States favour MS option, 6 oppose). EC comparisons with Directives have identified just two substantive (and minor) differences.
- i. **North America:** Available for use in United States, Canada (limited use so far)

#### 3. Translations

- a. **Completed:** Albanian, Arabic, Armenian, Chinese (simplified), Czech, French, Hebrew, Italian, Japanese, Kazakh, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish (20 languages total)
- b. **In process:** Bosnian, Estonian, German, Khmer, Ukrainian
- c. **Proposed or in discussion:** Bulgarian, Georgian

#### 4. Free training materials

- a. One module per Section of the IFRS for SMEs. Already available in English, Spanish, Turkish, Russian, Arabic, with more translations to come.
- b. Each module has the complete text of the Section, with each paragraph annotated with commentary and numerical examples. At the end of the module are a comparison with full IFRSs, discussion of significant estimates and judgements required in applying the section, a quiz (with answers), and two case studies (with solutions).
- c. Self-study. Free download in PDF format. Nearly 2,000 pages of training material in all.
- d. At this point 29 modules are finished and posted in English. The remaining 6 modules are drafted and at various stages of final review.

#### 5. Free training workshops

- a. **Regional:** Generally 3 days x 8 classroom hours per day, 20 PowerPoint sets, 1,100 slides, two IASB instructors, local organiser/sponsor (often World Bank or regional development bank). PowerPoints are available for free download in English as well as French, Portuguese, Russian, Spanish, and Turkish.
- b. **To date:** In Malaysia, India, Tanzania, Egypt, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Gambia, Argentina, Myanmar, Dubai, Kenya, Barbados, Bosnia, Chile, Bangladesh, Cameroon
- c. **Upcoming:** Abu Dhabi, Mongolia

#### 6. SME Implementation Group

- a. Created by IFRS Foundation Trustees, public call for nominations, 21 members appointed Sept 2010
- b. Provide guidance on implementing the IFRS for SMEs via non-mandatory Q&As
  - 1. Terms of Reference and Operating Procedures approved by Trustees
  - 2. Due process: SMEIG develop consensus, draft Q&A negative clearance by IASB, exposure for public comment, revisions by SMEIG, negative clearance by IASB, final Q&A posted
  - 3. Q&A status:
    - i. 50+ issues identified by constituents.

- ii. 7 final Q&A are now completed:
- iii. No additional Q&As under development by SMEIG. The IASB has begun a comprehensive review of the IFRS for SMEs in 2Q 2012. The review is expected to include a request for public comments on amendments that should be considered for the IFRS for SMEs. As part of the review, the IASB will also consider incorporating Q&As into the revised IFRS for SMEs. For that reason, the SMEIG does not expect that it will issue additional draft Q&As until the comprehensive review is completed.
- 4. Q&As published by the SME Implementation Group are non-mandatory guidance intended to help those who use the IFRS for SMEs to think about specific accounting questions. They are not intended to modify in any way the application of full IFRSs. Each Q&A says that.
- c. Recommend to IASB needed modifications to IFRS for SMEs via comprehensive reviews every three years (see topic 7 below)

## 7. Comprehensive review 2012-2014

- a. Review got underway 2Q 2012
- b. Due process steps:
  - i. May 2012: SMEIG approved Request for Information (RFI), sent to the Board
  - ii. June 2012: Board approved issuance of RFI for comment. RFI does not contain any preliminary views of the SMEIG or the IASB. RFI posted on IASB website: <http://www.ifrs.org/IFRS+for+SMEs/Review2012.htm>
  - iii. 30 November 2012: Comment deadline
  - iv. Physical meeting of SMEIG 1Q 2012 to discuss comments and develop recommendations to the Board on possible amendments to the IFRS for SMEs
  - v. Exposure draft (target 2Q 2013)
  - vi. Final revised IFRS for SMEs (either 4Q 2013 or 1H 2014)
  - vii. Effective date of any changes earliest 2015
- c. The fact that the IASB is undertaking a comprehensive review of the *IFRS for SMEs* does not necessarily mean that significant changes will be made. Two reasons for possible modifications:
  - i. Whether any new or revised IFRSs should be reflected in the IFRS for SMEs
  - ii. Implementation questions that have arisen
- d. Staff developed the Request for Information with advice of SMEIG. SMEIG will review comments and provide recommendations to the Board about possible amendments to

IFRS for SMEs. Board approved Request for Information, and will approve the Exposure Draft and any final revisions to IFRS for SMEs.

#### **8. Monthly IFRS for SMEs Update newsletter and Alerts**

- a. Free. Prepared by IASB staff
- b. News about adoptions, training programmes and materials, Q&As and draft Q&As, translations, with hyperlinks to download materials
- c. 13,000 email subscribers
- d. Subscribers also receive periodic email Alerts about other IFRS for SMEs news, such as new Q&As and draft Q&As

#### **9. Executive briefing booklet**

- a. Written for lenders, creditors, owner-managers, and others who use SME financial statements
- b. 8 pages: What is the IFRS for SMEs? Who is it aimed at? How does it differ from full IFRSs? Who is planning to use it? Implementation support available from the IASB. Revised March 2012.
- c. Download here: <http://www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm>
- d. Also in printed form

#### **10. Guidance booklet on application of the IFRS for SMEs by micro-sized entities**

- a. The IASB staff have begun developing guidance to help micro-sized entities apply the IFRS for SMEs. The staff will ask the SME Implementation Group to review the draft guidance and to approve sending the final draft to the IASB for review.
- b. The staff are undertaking this project because some organisations, mainly in smaller jurisdictions, have told the IASB that micro-sized entities feel that the IFRS for SMEs is not tailored to their needs and capabilities.
- c. This issue was discussed at the 2011 World Standard Setters meeting. Participants noted that a large percentage of the 230-page SME standard is of little, if any, relevance for a tiny company with fewer than ten employees. They felt IASB should develop and publish some type of guidance suitable for micros as a ‘sub-set’ of the IFRS for SMEs, not as a separate standard.
- d. IASB staff will do this by extracting from the IFRS for SMEs only those requirements that are clearly necessary for most micro-sized entities, without modifying any of the principles for recognising and measuring assets, liabilities, income, and expenses. Only the main principles relating to those requirements would be included.
- e. The guidance would contain cross-references to the IFRS for SMEs for matters dealt with in the IFRS for SMEs but not in the guidance booklet.

- f. In effect, this publication would be guidance on how a micro-sized entity can easily apply the IFRS. The basis of presentation note and auditor's report could refer to conformity with the IFRS for SMEs because there is no modification.

#### 11. IFRS for SMEs section of IASB website

- a. Main IFRS for SMEs page: <http://www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm>
- b. Major enhancements earlier this year. Reorganised into the following sections:
  - i. About the IFRS for SMEs
  - ii. Access the IFRS for SMEs
  - iii. Comprehensive Review 2012-2014
  - iv. SME Implementation Group
  - v. Q&As
  - vi. Training material
  - vii. Train the Trainers Workshops
  - viii. Update Newsletter
  - ix. Presentations about the IFRS for SMEs
  - x. Webcasts
  - xi. Project History
  - xii. Non-English Resources

#### 12. Free Downloads from IASB

- a. IFRS for SMEs (full standard, translations): <http://go.ifrs.org/IFRSforSMEs>
- b. Training materials (35 modules, multiple languages): <http://go.ifrs.org/smetraining>
- c. PowerPoint training modules (20 PPTs, multiple languages): <http://go.ifrs.org/trainingppts>
- d. Board and staff presentations (multiple languages): <http://go.ifrs.org/presentations>
- e. Update newsletter: <http://go.ifrs.org/smeupdate>
- f. SME Implementation Group members and terms of reference: <http://go.ifrs.org/smeig>
- g. Q&As: <http://www.ifrs.org/IFRS+for+SMEs/Q+and+A+IFRS+for+SMEs.htm>
- h. Executive briefing booklet: <http://www.ifrs.org/NR/rdonlyres/4308000F-FAC8-41F3-BC15-E594E8058EB6/0/GuideToIFRSforSMEs2010Oct.pdf>

#### 13. IFRS Foundation resources



- a. IASB member Paul Pacter chairs SMEIG and oversees IFRS for SMEs implementation activities. [ppacter@ifrs.org](mailto:ppacter@ifrs.org). Board member Darrel Scott will assume this role when Paul's term ends.
- b. Michelle Fisher, IASB Senior Project Manager, is responsible for all matters relating to the IFRS for SMEs. [mfisher@ifrs.org](mailto:mfisher@ifrs.org). Full-time, based in London.