

June 2013

International Financial Reporting Standards

2009

International Accounting Standards Board (IASB®)

IFRS® for SMEs

International Financial Reporting Standard (IFRS®)
for Small and Medium-sized Entities (SMEs)



The *IFRS for SMEs*

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The *IFRS for SMEs*

Good Financial Reporting Made Simple

- 230 pages, issued 9 July 2009
- Simplified IFRSs, but built on a full IFRS foundation
- Modifications based on 2 criteria:
 - needs of users of SME financial statements
 - cost-benefit considerations
- Completely stand-alone

Who is eligible to use it?

Any entity that does not have public accountability:

- its debt or equity instruments are not traded in a public market, and
- it does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, eg not a financial institution

and is required or chooses to produce General Purpose Financial Statements (GPFS)

Tailored for the needs of SMEs

Users of SME financial statements:

- Lenders, vendors, credit rating agencies, customers, family investors
- Short-term cash flows, liquidity, solvency

Users of listed company financial statements:

- Invest in equity shares or long-term debt
- Much longer time horizon
- Forecast earnings, share prices, value of the entity as a whole

Jurisdiction adoption

Today (June 2013), to the best of our knowledge:

- Over 80 jurisdictions have either adopted the *IFRS for SMEs* or stated a plan to adopt it within the next three years

Comprehensive review

Initial comprehensive review: After 2 years implementation experience

- Fix errors and omissions, lack of clarity, and other implementation problems
- Also consider need for improvements based on recent changes to full IFRSs

Thereafter: Once every three years (approximately) omnibus exposure draft of updates

Comprehensive review

- Request for Information issued June 2012
- Comments were due 30 November 2012
- Meeting of the SME Implementation Group February 2013
- IASB deliberations April - June 2013
- Exposure Draft planned 2H 2013
- Revisions early 2014, effective 2015

Comprehensive review

The IASB received 89 comment letters on the Request for Information. Posted on IASB website

- Africa (10)
- Asia (13)
- Europe (38)
- Global (11)
- Latin America (8)
- North America (5)
- Oceania (4)

Guidance booklet on micro SMEs

IASB staff have developed guidance to help micro-sized SMEs apply *IFRS for SMEs*

- Tiny companies
- Not a new standard
- Extract relevant principles from *IFRS for SMEs*
- Guidance booklet will contain cross-references to *IFRS for SMEs* for matters omitted in micro booklet
- Expected to be issued in June 2013

Three principal debates:

- Use of *IFRS for SMEs* by publicly accountable entities
- Changes to full IFRSs
 - ‘close alignment with full IFRSs’ versus ‘independent Standard focused on the needs of SMEs’
- Frequency of reviews of *IFRS for SMEs*
 - ‘responsive’ versus ‘stability’

- **Issues discussed by the IASB:**
 - Use by publicly traded entities
 - Use by financial institutions and similar entities holding assets in a fiduciary capacity
- **Current requirements**
 - Publicly accountable entities are prohibited from stating compliance with the *IFRS for SMEs* in their financial statements

- **Why extend the scope?**
 - Some entities meeting the definition of public accountability are borderline cases
 - Some publicly accountable entities are applying local standards inferior to the *IFRS for SMEs*
 - Some publicly accountable entities produce poor quality financial information under full IFRSs because of lack of expertise or resources

- **Tentative IASB decision:**
 - To continue to prohibit publicly accountable entities from stating compliance with the *IFRS for SMEs* in their financial statements
 - Concerns about the IFRS brand
 - Concerns that the *IFRS for SMEs* was not designed for publicly accountable entities

- **IASB discussed:**
 - A framework for dealing with new and revised IFRSs during reviews of the *IFRS for SMEs*.
 - How to address individual new and revised IFRSs during this initial comprehensive review

- **IASB agreed guidance for its own discussions:**
 - Consider individually on a case-by-case basis after IFRS published
 - Generally no need to wait until post-implementation review
 - Changes only made as part of three-yearly review
 - Special need for stable platform during this initial comprehensive review

- **Current requirements:**
 - Once every three years (approximately) omnibus exposure draft of updates
 - Tentative plan, not a firm commitment
 - To address:
 - Any specific issues arising
 - Also consider changes to full IFRSs since last review

Thank you

individual
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questions
expressions of individual views
expressions and viewpoints
feedback and comments

Appendix

For information only

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How did we simplify from full IFRSs?

- Some topics in full IFRSs omitted if irrelevant to private entities
- Where full IFRSs have options, include only simpler option
- Recognition and measurement simplifications
- Reduced disclosures
- Simplified drafting

Examples of Omitted Topics

- Segment reporting
- Interim reporting
- Earnings per share
- Insurance
- Assets held for sale

Examples of Omitted Options

- Financial instruments options including:
 - Available for sale option
 - Held to maturity option
 - Fair value option
 - Embedded derivatives
- Revaluation of property, plant and equipment and intangibles
- Free choice on investment property
- Various options for government grants

Recognition & Measurement

- Financial instruments:
 - Two classifications, not four
 - Drop “continuing involvement approach” for derecognition
 - Much simplified hedge accounting
- Goodwill amortisation
- Goodwill impairment – indicator approach
- Expense all research and development costs
- Cost method for associates and joint ventures

- Much less fair value for agriculture
- Expense all borrowing costs
- Defined benefit plans:
 - No corridor or deferrals
 - Simplified calculation of obligation
- First-time adoption: Less prior data
- Share-based payment – can use directors' judgement in estimating value

Disclosure simplifications

Big reduction in disclosures:

- Full IFRSs – more than 3,000 items in the disclosure checklist
- *IFRS for SMEs* – roughly 300 disclosures

Why would an SME adopt It?

Improved access to capital

- This is the #1 issue for SMEs

Improved comparability

Improved quality of reporting as compared to existing national GAAP

- World Bank ROSC reports on 100 countries
- <http://www.worldbank.org/ifa/rosc.html>

Reduced burden where full IFRSs or full national GAAP are now required for SMEs



Other benefits:

- Lots of implementation help from the IASB
- Examples later
- Stability: Update only once every three years (if needed)
- Textbooks available
- Software available
- Commercial training programmes

Adoption: some examples

- **South America:** Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Venezuela
- **Caribbean:** Antigua & Barbuda, Aruba, Bahamas, Barbados, Bermuda, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
- **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama

Adoption: some examples *continued*

- **Africa:** Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
- **Asia/Oceania:** Bangladesh, Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Samoa, Singapore, Sri Lanka, Tonga
- **Middle East:** Jordan, Lebanon, Palestine, Qatar

- **Eurasia:** Azerbaijan, Kyrgyzstan, Moldova, Turkey
- **Europe:** Bosnia, Estonia, Macedonia. Available for use in Switzerland. Planned: United Kingdom, Ireland, Denmark, Latvia. Others studying. Note that European Commission is currently consulting on the *IFRS for SMEs*
- **North America:** Available for use in United States, Canada

Implementation support

Translations

- **Completed:** Albanian, Arabic, Armenian, Bosnian, Simplified Chinese, Croatian, Czech, Estonian, French, German, Hebrew, Italian, Japanese, Kazakh, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish, Ukrainian
- **Proposed or in discussion:** Georgian, Turkmen

Free training workshops (regional, 3 days)

- **To date:** In Malaysia, India, Tanzania, Egypt, Gambia, Belarus, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Argentina, Myanmar, United Arab Emirates, Barbados, Bosnia, Kenya, Chile, Cameroon, Bangladesh, Ukraine, Mongolia, Zambia

Free training workshops (continued)

- **1,100 slides in 20 PowerPoint presentations**
- Free to download
- Arabic, French, Portuguese, Russian, Spanish, Turkish
- We encourage others to use our PowerPoints in training programmes they organise

Two responsibilities

- Develop non-mandatory guidance on *IFRS for SMEs* in the form of Q&As
- Make recommendations to the IASB on the need to amend the *IFRS for SMEs*

Comprehensive review

Initial comprehensive review: After 2 years implementation experience

- Fix errors and omissions, lack of clarity, and other implementation problems
- Also consider need for improvements based on recent IFRSs and amendments

Thereafter: Once every three years (approximately) omnibus exposure draft of updates

The Request for Information included

- 19 questions on specific accounting issues
- 5 general questions
- Plus respondents can add their own issues

Examples of general questions

- Is there further need for Q&As
- Whether to incorporate existing Q&As into the *IFRS for SMEs*

Examples of specific questions

- Use by small publicly traded entities
- Use by small financial institutions
- Use by not-for-profit entities
- Fair value measurement guidance
- Revaluation of PP&E
- Capitalisation of borrowing costs
- Recognition of deferred income taxes

Other issues raised by respondents

- Difficulties applying specific requirements
 - eg undue cost or effort exemption, definition of public accountability etc
- Possible unintended consequences of requirements
 - eg criteria for basic financial instruments, allocation of business combination, common control exemptions for equity transactions etc

Other suggestions made by respondents

- Suggested changes to accounting
 - eg removal of other comprehensive income, cost model for investment property etc
- General issues
 - eg reduced disclosure framework for subsidiaries, size dependent reliefs etc

February 2013 SMEIG meeting

- Discussed comments received on the Request for Information
- Developed recommendations for the IASB on possible amendments to the *IFRS for SMEs*
- Agenda papers (containing comment letter analysis) and report of the meeting are available on the IASB website

IASB discussions

- IASB began discussions at its March 2013 meeting
- Expected to finish discussing the main issues at June 2013 meeting

Free self-study training materials

Training material free for you to use

- Developed by IFRS Foundation staff
- Multi-level peer review but not IASB approved
- 35 standalone modules (1 for each section of the *IFRS for SMEs*)
- English, Spanish, several other languages
- Training material = +2,000 A4 pages
- Free to download (PDF)
- Self study

Each module includes

- Explanation of the requirements
 - Full text of the requirements
 - ‘How to’ numerical examples
 - Other explanations
- Discussion of important judgements
- Comparison with full IFRSs
- Test your knowledge – multiple choice quiz
- Apply your knowledge – case studies

Executive briefing booklet

Written for lenders, creditors, owner-managers and others who use SME financial statements

- 8 pages
- What is the *IFRS for SMEs*? Who is it aimed at? Who uses it? Differences with full IFRSs
- Revised 2012
- Free download