

Micro Entities Way Forward

Emerging Economies Group
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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (Board) or IFRS Foundation.

Agenda

- Recap of objectives with these sessions
- Recap of IFRS definitions
- Recap of what we have heard so far from EEG members
- Discussion of way forward



Objectives of these sessions

Objectives

- To discuss and understand the accounting for Micro entities in member countries
 - Definition of a micro
 - User definition
 - Approach to accounting
 - Reliefs provided
- To consider future steps for micro accounting

IFRS Foundation Approach

Goal of IASB/IFRS Foundation

- To provide the world's integrating capital markets with a common language for financial reporting
- In fulfilling this objective, take account of the needs of:
 - Small and medium-sized entities; and
 - Emerging economies.

- Full IFRSs
 - Required or permitted for all or some listed companies in 138 jurisdictions (of 150 analysed)*
- The *IFRS for SMEs*
 - Issued in July 2009
 - 85 jurisdictions already permit or require its use and
 - It is under consideration in a further 11 countries

* from an analysis of jurisdictional profiles completed by the IFRS Foundation, correct at 30 September 2017

The *IFRS for SMEs*

Good Financial Reporting Made Simple.

- +-250 pages
- Simplified IFRSs, but built on an IFRS foundation
- Completely stand-alone
- Designed specifically for SMEs
- Internationally recognised
- Final standard issued July 2009, first amendments published May 2015



Use of *IFRS for SMEs*

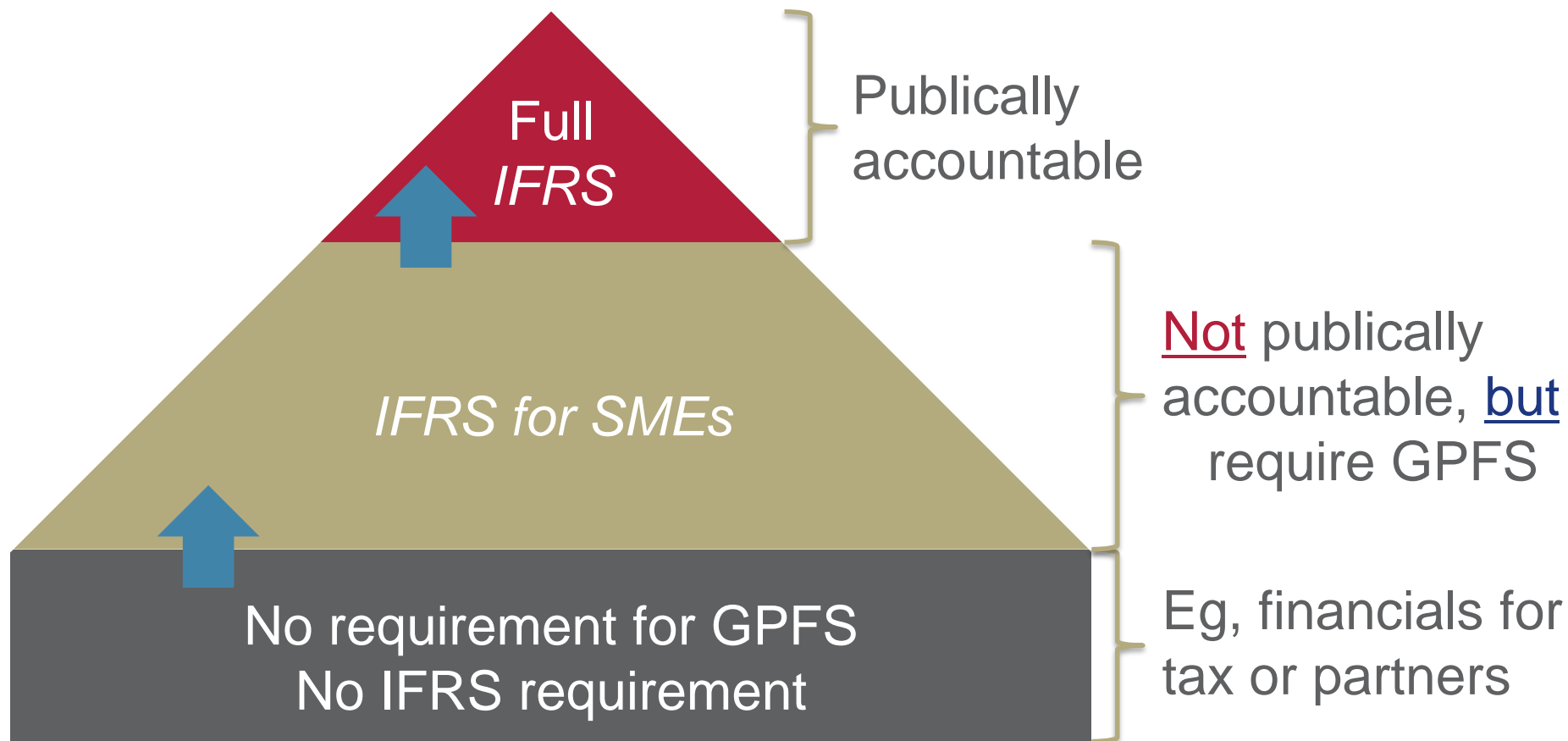
Who is eligible to use it?

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- Any entity that does not have public accountability...
 - securities not publicly traded
 - not a financial institution
- ... and is required or chooses to produce General Purpose Financial Statements (GPFS)

Who is the Standard aimed at?

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- Any entity can chose to use IFRSs
 - No size or user base limitations
 - Restrictions that do apply (eg going concern) relate to assessment of when information is useful
 - Example: some Public Sector and not-for-profit entities apply IFRS even though it is not written for them
- Decision specifically taken based on:
 - Usefulness of information produced (entity specific decision)
 - Public interest frameworks (eg jurisdictional laws and regulations)

Restrictions on use

IFRS for SMEs

- Explicit requirements
- Ceiling: excludes Public accountable entities
 - debt or equity traded, or in preparation for being traded, in a public market
 - hold assets in fiduciary capacity for broad group as primary business
- Floor: only includes general purpose financial statements

- Conceptual framework and pervasive concepts
 - Objective is to provide information relevant to resource allocation decisions by existing and potential investors, lenders and other creditors who cannot require information directly and that can be faithfully represented
- Distinction between IFRS, IFRS for SMEs and out of scope are premised on user base differences
 - do not have public accountability; and
 - publish general purpose financial statements for external users

IASB Focus is on Users

Conceptual Framework

- Full IFRS: Extract from draft Conceptual Framework
 - ‘....provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about relating to providing resources to the entity’
 - ‘Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.’

IASB Focus is on Users

Concepts and pervasive Principles

- IFRS for SMEs: Extract from Chapter 2
 - ‘The objective of financial statements of a small or medium-sized entity is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users of the financial statements who are not in a position to demand reports tailored to meet their particular information needs.’

General purpose financial statements

Conceptual framework

- Full IFRS: Extract from draft Conceptual Framework
 - General purpose financial report ‘provides information about the reporting entity that is useful to **primary users** in making decisions relating to providing resources to the entity.’
 - ‘...management need not rely on general purpose financial reports because it is able to obtain the financial information it needs internally’
 - ‘Other parties, such as regulators may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups’

General purpose financial statements

Typical exclusions

- Financial reports prepared specifically for:
 - Management
 - Regulators or authorities that request additional information
 - Entities individual bankers who can request additional information
 - Other special purposes eg liquidation reports

Are not general purpose financial statements

- Entities that require financials only for these purposes are not within the scope of either IFRS or IFRS for SMEs

General purpose financial statements

Size of entity

- Typically, micro entities prepare financials only for:
 - Manager owners
 - Tax authorities
 - Individual Banker
- But this is not a hard and fast rule:
 - Many large family owned businesses do not require external financing
 - Many very small start ups use external funding, including extensive trade finance, lease finance etc

- Guide to facilitate use of IFRS for SMEs by micro entities
 - Not a bespoke accounting framework
 - Extract relevant principles from IFRS for SMEs
 - Cross-references to IFRS for SMEs for matters omitted
- Does not provide a definitive definition of a micro, but does describe typical characteristics:
 - few employees and often owner-managed;
 - low or moderate levels of revenue and gross assets; and
 - does not have subsidiaries, associates, joint ventures, complex financial instruments or share options



Summary of what we have heard from EEG members

Key Features of Micro's

	India	Indonesia	South Africa	IFRS for SMEs
Non public interest	✓	✓	✓	✓
Quantitative size test	✓	✓	✓	✗
- Revenue	✓	✓	✗	✗
- Entity value	✓	✗	✗	✗
- Assets	✗	✓	✗	✗
- Borrowing	✓	✗	✓	✗
- Employee numbers	✓(?)	✗	✓	✗
User base test	✗	✗	✓	✓
Legal structure type	✓	✓	✗	✓

- India:
 - Non-public interest
 - Small Size (quantitative: turnover, entity value, borrowing)
 - Legal structure also relevant
 - Some exemptions relate to average number of employees
- Indonesia
 - Primarily relevant in case of sole proprietorship (or other unincorporated entities)
 - Small size (quantitative value assets or revenue)

Key Features of Micro's

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- South Africa:
 - Non-public interest
 - Small Size (quantitative: borrowings, shareholders, employees)
- IFRS for SMEs
 - Non-public interest
 - General purpose financial statements

Key Reliefs provided

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	India	Indonesia	South Africa	IFRS for SMEs
Relief from providing:				
- Cash Flow statement	✓	✓	✓	✗
- Changes in equity	✓	✓	✓	✓(?)
- Consolidated results	✓	✗	✓	✗
Simplifications for	✓	✓	✓	✓(?)
- Fair value	✓	✓	✓	✓(?)
- Biological assets	✓	✗	✓	✓(?)
- Impairments	✓	✓	✓	✗
- Leases	✓	✓	✓	✗(?)

- India:
 - Exclusions from segment reporting, cash flow statement, consolidations, interims, earnings per share, disclosures
 - Lease simplifications
 - Reliefs on value in use, fair value
- Indonesia
 - Fewer accounting policy choices, reduced disclosure, only historical cost, no Cash flow or change in equity statement
 - Simplifications to PPE (incl. intangibles, investment property, biological assets) and inventories (incl. biological assets)
 - No specific requirements for impairment
 - Lease simplifications

Key Reliefs provided

- South Africa:
 - Policies as determined by the entity
 - Prepared consistently in accordance with those policies
 - Typically tax accounting

Way forward

- Continue with jurisdiction specific presentations
 - Better understanding of both criteria and simplifications
 - Opportunity to explore what works and what doesn't
- Presentation of non EED jurisdictions (FRS 105)
- Develop an EEG strawman proposal
 - Consider EEG wide best practice
 - Provide a template for EEG (and non EEG) jurisdictions considering the same issues
- Petition IASB or other party (World Bank etc) to develop proposal

Question

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- How would you like to proceed?

Contact us

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