

# Comprehensive Review of the *IFRS for SMEs*® Standard— Scope of the IFRS for SMEs Standard

EEG Meeting, Agenda paper 6  
Buenos Aires, March 2019

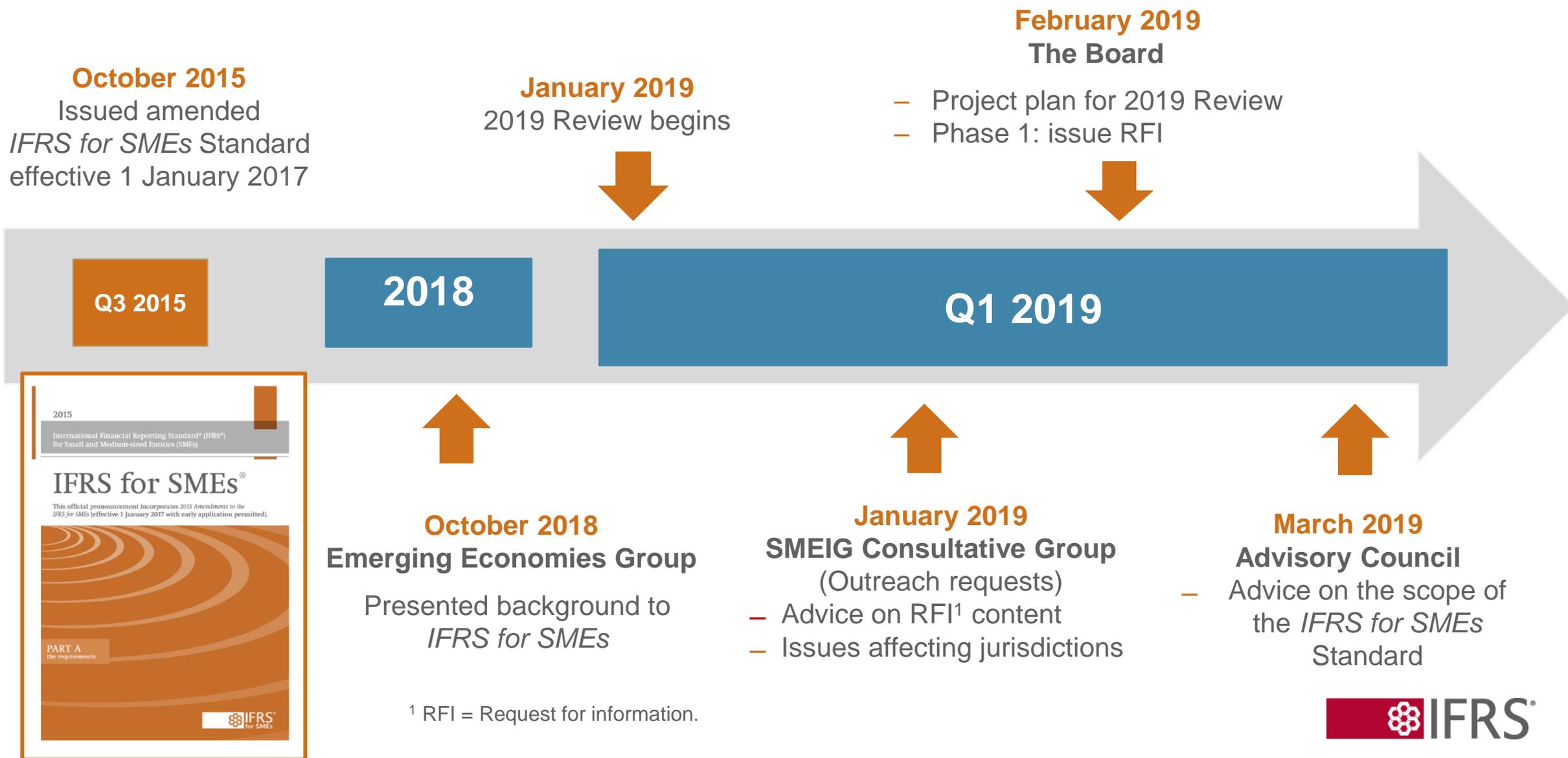
The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.

- The International Accounting Standards Board (Board) is reviewing the *IFRS for SMEs* Standard (2019 Review).
- The views of IFASS members will help us develop recommendations for the Board.

As a part of its 2019 Review:

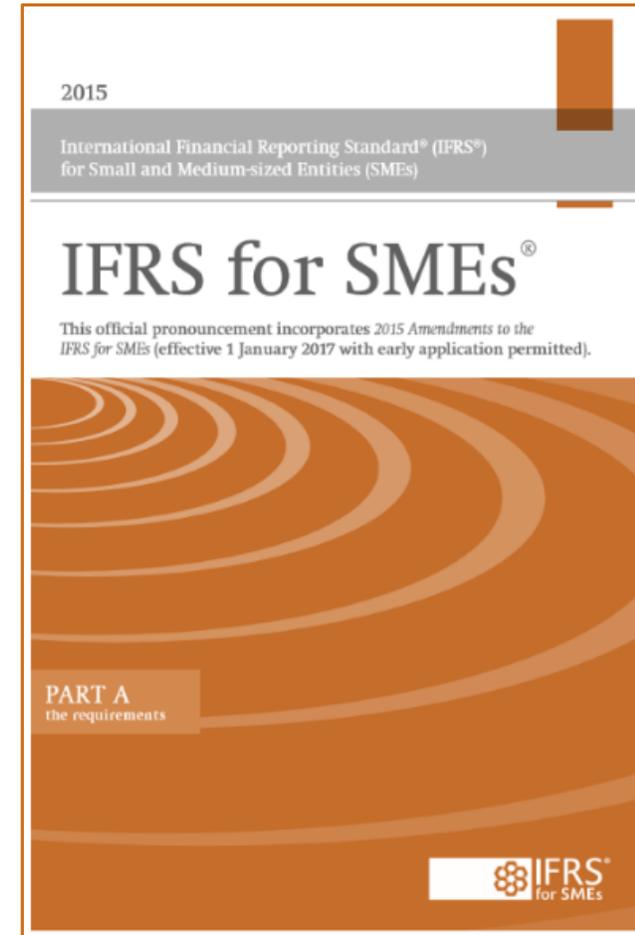
Should the Board extend the scope of the *IFRS for SMEs* Standard to include some publicly accountable entities?

# 2019 Review—Status



# The *IFRS for SMEs* Standard

- 250 pages long
- based on principles from IFRS Standards
- tailored for small and medium-sized entities (SMEs) that are not publicly accountable
- focuses on information needs of lenders and other users of SME financial statements



# Why the Board decided to develop the Standard

Is developing a Standard for SMEs consistent with the Board's mission?

Yes: mission includes taking account of 'the needs of a range of sizes and types of entities in diverse economic settings'.<sup>1</sup>

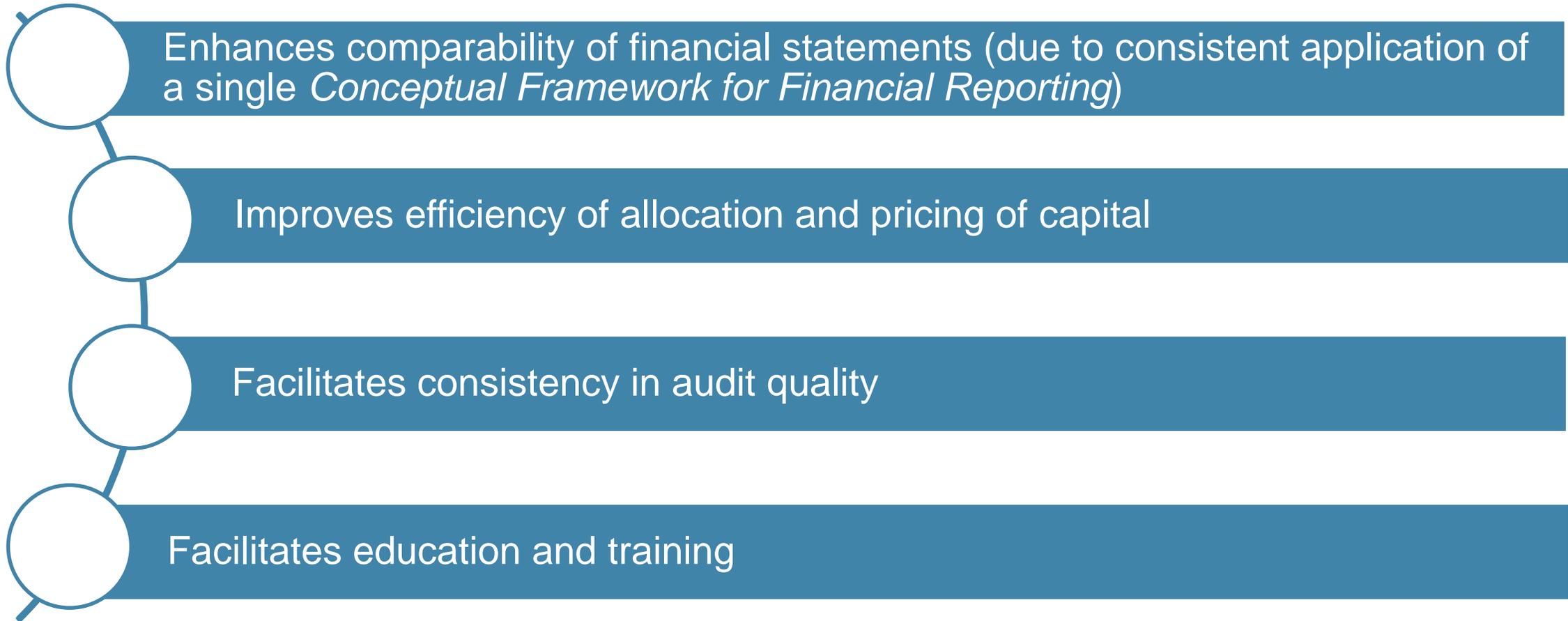
Do national standard-setters support the Board developing such a Standard?

Yes

**The Board decided to develop a Standard for SMEs.**

<sup>1</sup> IFRS Foundation *Constitution* para 2(c) (December 2018).

# Benefits of a global standard for SMEs<sup>1</sup>



<sup>1</sup> Paragraph BC36 of the *IFRS for SMEs* Standard.

# Adoption of the *IFRS for SMEs* Standard

**86** of **166** jurisdictions require or permit use of the *IFRS for SMEs* Standard.



# *IFRS for SMEs* Standard—Defining the original scope

In developing the *IFRS for SMEs* Standard, the Board considered whether the following types of entities should be permitted to use the Standard:

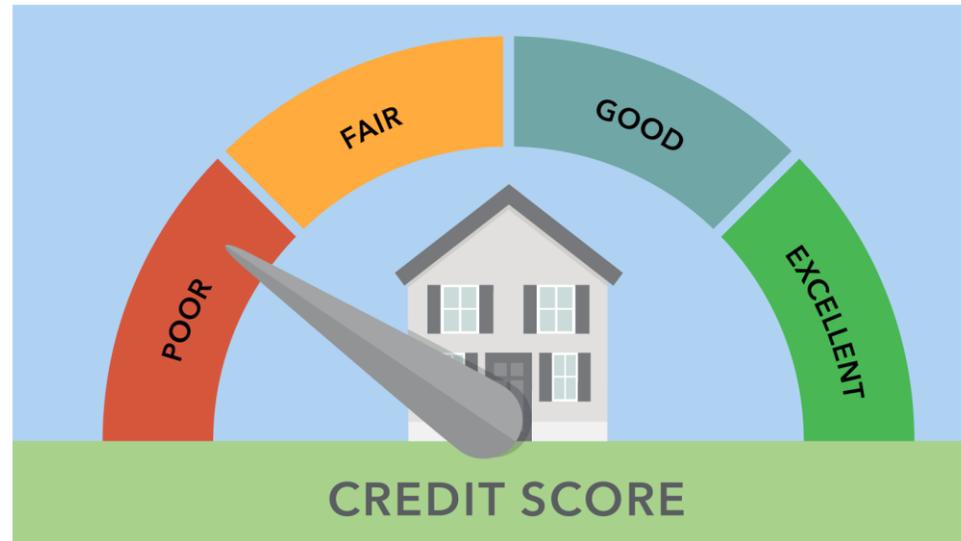
- entities whose securities are traded in public markets
- financial institutions that hold assets in a fiduciary capacity
- SMEs providing essential public services
- SMEs that are economically significant in home jurisdictions

In the *IFRS for SMEs* Standard, the Board describes SMEs as entities that:

- are not publicly accountable; and
- publish general purpose financial statements for external users.

# External users of SMEs' financial reports

- banks
- shareholders that are not managers
- customers of SMEs
- vendors that sell to SMEs (to make pricing and credit decisions)
- credit-rating agencies (to rate SMEs)



## Publicly accountable entity:

Entity's debt or equity instruments are traded on a public market (or it is in the process of issuing such instruments for trading in a public market)

OR

Entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses



The Board has received requests to extend the scope from:

- participants in the 2015 Review
- European stakeholders
- SME Implementation Group (SMEIG) members

Some respondents<sup>1</sup> to the RFI suggested the Board:

- extend the scope to include some publicly accountable entities
- allow jurisdictions to decide whether publicly accountable entities can use the *IFRS for SMEs* Standard
- clarify the meaning of ‘fiduciary capacity’ in the definition of public accountability—the term is interpreted inconsistently across jurisdictions

<sup>1</sup> See paragraphs BC179 and BC182 of the *IFRS for SMEs* Standard Part B.

## Amending the scope —What are your views?

The staff plan to recommend that the Board consult on permitting the following publicly accountable entities to apply the Standard:

### Entities whose securities are traded in public markets:

- if these entities are small or narrowly held; and
- if their securities are traded in alternative markets.

### Entities holding assets in a fiduciary capacity:

- small financial institutions eg small credit unions, small private banks and small building societies

# Entities whose securities are traded in public markets

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The staff plan to recommend that such entities should be permitted to apply the *IFRS for SMEs* Standard

only if:

- their shares are traded on an alternative market
- their shares are closely held
- their shares are not regularly traded
- their shareholders unanimously agree

# Entities that hold assets in a fiduciary capacity

The staff plan to recommend that such entities should be permitted to apply the *IFRS for SMEs* Standard **only if**:

- they have a strictly defined and limited group of members
- they have fewer than a specified number of members
- their members unanimously agree

# Allowing some publicly accountable entities to apply the *IFRS for SMEs* Standard—Potential advantages

## For preparers of financial statements

- reduced cost of preparing financial statements
- improved financial reports

## Other advantages

- increased global adoption of the *IFRS for SMEs* Standard
- improved financial reports for investors
- benefits to lesser-resourced entities from simplified requirements

- **Increased complexity** of the *IFRS for SMEs* Standard
- **Increased cost** of maintaining the *IFRS for SMEs* Standard
- **Reduced information to users** (including regulators) of financial statements prepared by entities that apply the *IFRS for SMEs* Standard instead of full IFRS Standards
- **Reduced comparability** of financial statements

1. What are your views on the staff proposal that the Board consults on permitting some publicly accountable entities to apply the *IFRS for SMEs* Standard?
  
2. Do you agree with staff proposals if some publicly accountable entities apply the *IFRS for SMEs* Standard this should be subject to the restrictions described on slides 15–17:
  - a. entities whose securities are traded on a public market?
  - b. entities that hold assets in a fiduciary capacity?



# Get involved

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