

IASC Foundation
IFRS Conference

Wednesday 23 and Thursday 24 June 2010
Hilton London Metropole, United Kingdom

Special Interest Workshop

IFRS for small and medium-sized entities

PAUL PACTER

*Chairman of the SME Implementation Group and
Director of Standards for SMEs*

IASB

IAN MACKINTOSH

Chairman

ASB

BRUCE MACKENZIE

Managing Partner

W Consulting

GEOFFREY BRITTON

President

European Federation of Accountants and Auditors of SMEs

Chair:

GILBERT GELARD

Member

IASB

IASC Foundation
Special Interest Session

***IFRS for Small and Medium-sized Entities
(IFRS for SMEs)***

24 June 2010—at the Hilton London Metropole (United Kingdom)

Programme

13:00 ***Registration***

14:00 ***Introduction***

Gilbert G elard

Member

IASB

14:05 ***Implementation update***

Paul Pacter

Chairman of the SME Implementation Group and Director of Standards for SMEs

IASB

14:35 ***Perspectives***

UK & Ireland plans—Ian Mackintosh, *Chairman, ASB*

South African experience—Bruce Mackenzie, *Managing Partner, W Consulting*

Preparer's and auditor's perspective—Geoffrey Britton, *President, European Federation of Accountants and Auditors for SMEs*

15:50 ***Round-table Q&A***

Chair:

Gilbert G elard, *Member, IASB*

Panellists

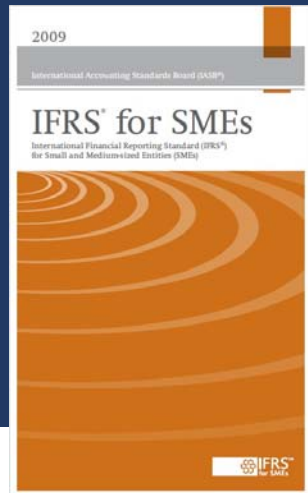
- Paul Pacter, *Chairman of the SME Implementation Group and Director of Standards for SMEs, IASB*
- Ian Mackintosh, *Chairman, ASB*
- Bruce Mackenzie, *Managing Partner, W Consulting*
- Geoffrey Britton, *President, European Federation of Accountants and Auditors for SMEs*

16:25 ***Concluding Comments***

Gilbert G elard

Member

IASB



IFRS for SMEs Implementation Update

IFRS Conference London

Paul Pacter, IASB
24 June 2010

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The IFRS for SMEs

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Good Financial Reporting Made Simple.

- 230 pages
- Simplified IFRSs, but built on an IFRS foundation
- Completely stand-alone
- Designed specifically for SMEs
- Internationally recognised
- Final standard issued 9 July 2009



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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Which entities must produce GPFS is a public interest issue

- Decided by parliaments and regulators, not by IASB
- Why? There is a public benefit in good financial information about companies



Who is the standard aimed at?

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Millions of companies (over 99%)!

- The 52 largest stock exchanges in the world together have only around 45,000 listed companies globally
- Europe has roughly 25 million private sector enterprises
- USA has roughly 20 million private sector enterprises
- UK alone has 4.7 million private sector enterprises
– 99.6% have fewer than 100 employees



How does it differ from full IFRSs?

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- **Tailored for SMEs**
 - User needs for information about cash flows, liquidity, and solvency
 - Costs and SME capabilities
- **Much smaller**
 - 230 pages vs 3,000 in full IFRSs
- **Organised by topic**
- **Simplifications** from full IFRSs



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



Disclosure simplifications

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



Tailored for the needs of SMEs

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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



Why would an SME want to adopt it?

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- **Improved access to capital**
 - This is the #1 issue with SMEs
- **Improved comparability**
- **Improved quality of reporting** as compared to existing national GAAP
 - World Bank ROSC reports
- **Less of a burden** for entities in jurisdictions where full IFRSs or full national GAAP are now required.



Why would an SME want to adopt it?

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- **Other benefits:**
 - Implementation Q&As – new IASB SME Implementation Group
 - Special newsletter for SMEs and auditors using the IFRS for SMEs
 - Textbooks available
 - Software available
 - IASB training materials (already posted)
 - Commercial training programmes



There's a payback for good accounting

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“Transparency, Ownership, and Financing Constraints in Private Firms” (Hope, Thomas, and Vyas), November 2009

- **Study:** Around 31,000 SMEs in 68 developing countries and emerging markets
- **Abstract:** **We find that private firms with greater financial transparency experience significantly lower problems with gaining access to external finance (and obtain those funds at a lower cost) than do other private firms.**



There's a payback for good accounting

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**“Financial Reporting Quality and Investment Efficiency of Private Firms in Emerging Markets”
(Chen, Hope, and Li, November 2009)**

- **Study:** Around 7,000 SMEs in 20 emerging markets
- **Abstract:** **We find strong evidence that accounting quality positively affects investment efficiency** (i.e., is negatively related to both underinvestment and overinvestment) for our sample of relatively small private firms in lower-income countries.



Jurisdiction plans for adoption

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Today (June 2010), to the best of our knowledge:

–61 jurisdictions have either adopted the IFRS for SMEs or stated a plan to adopt it within the next three years



Jurisdiction plans for adoption

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Some examples (please remember that the IFRS for SMEs was issued less than a year ago):

- **South America adoptions:** Argentina (proposal), Brazil, Venezuela
- **Caribbean adoptions:** Dominican Republic, Guyana, Barbados, Trinidad, Bahamas, etc
- **Central America adoptions:** Belize, Costa Rica, El Salvador, Panama, Nicaragua
- **Africa adoptions:** South Africa, Botswana, Egypt (proposal), Namibia, Tanzania, Uganda, Ethiopia, Sierra Leone



Jurisdiction plans for adoption

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Adoption examples, continued:

- **Asian adoptions:** Cambodia, Philippines, Hong Kong, Malaysia (proposal). Singapore studying.
- **Europe adoptions:** United Kingdom (proposed), Ireland (proposed), Turkey. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs.
- **Available for use without any action:** United States, Australia, Canada (but Canada has also adopted its own SME standard, and Australia is considering disclosure exemptions only)



Jurisdiction plans for adoption

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- **Adoption details – UK and Rep. of Ireland:**

- Ian Mackintosh will give us an update

- **Adoption details – South Africa:**

- Adopted the IFRS for SMEs Exposure Draft in October 2007 as a temporary standard

- Adopted final IFRS for SMEs in August 2009

- Bruce Mackenzie will give us an update

- **Adoption issues – Europe:**

- Geoff Britton will give us a preparer's and auditor's perspective



What would the audit report say?

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- **Something like:**

-

“Fairly presents financial position, results of operations, and cash flows in conformity with the International Financial Reporting Standards for Small and Medium-sized Entities”



Plan for maintenance

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- **Initial comprehensive review:** After 2 years implementation experience
 - Fix errors and omissions, lack of clarity
 - Also consider need for improvements based on recent IFRSs and amendments to IASs
- **Thereafter:** Once every three years (approximately) omnibus exposure draft of updates



Plan for maintenance

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Estimate of initial update:

- 2010 and 2011 first two years of experience
- 2012 begin review
 - Both implementation problems and consider changes to full IFRSs
 - Invitation to comment 2012
 - Exposure Draft 2012 or 2013
 - Final amendments 2013
- 2014 earliest effective date of amendments
 - **So, 4-5 year “stable platform”**



Translations

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- **Complete or nearly complete:**
 - Chinese, Spanish, Italian, Portuguese, Romanian
- **In process:**
 - Arabic, Czech, French, Japanese, Serbian, Turkish
- **Proposed or in discussion:**
 - Armenian, Khmer, Macedonian, Polish, Russian, Ukrainian



IASCF training materials for SMEs

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Being developed by IASC Foundation

- One module per Section. To illustrate:
 - **Section 17 PP&E is 7 A5 pages long**
 - **Training module is 32 A4 pages, full text of IFRS for SMEs with commentary on each paragraph, many examples, cases, quiz, comparison with full IFRSs, judgements**
- 19 modules now posted. Rest in 2010
- English. Other languages (funding).
- Free of charge – download



“Train the trainers”

- Regional group or development agency organises
- IASCF/IASB provides trainers and materials (no charge, just pay travel expenses)
- 3 days of intensive study covering most sections of IFRS for SMEs
- Participants must commit to study the training materials and do training in their home country
- Instruction in English (also plan Spanish, Portuguese and others)



SMEIG being formed – two responsibilities:

- Consider implementation questions raised by users of the IFRS for SMEs. Develop guidance in the form of Q&As (non-mandatory guidance)
- Make recommendations to the IASB on, the need to amend the IFRS for SMEs:
 - For implementation issues that cannot be addressed by Q&As; and
 - For new and amended IFRSs that have been adopted since the IFRS for SMEs was issued or last amended



IFRS for SMEs Update:

- Launched March 2010
- Four issues already published
- Monthly
- Free subscription via email
- Staff summary of news relating to IFRS for SMEs



IFRS for SMEs (full standard, multiple languages):

<http://go.iasb.org/IFRSforSMEs>

Training materials (35 modules):

<http://go.iasb.org/smetraining>

PowerPoint Training Modules (20 modules, total 24 hours training):

<http://www.iasb.org> Then click “Get Involved” then “Conferences and Training”

IFRS for SMEs Update Newsletters:

<http://www.iasb.org/IFRS+for+SMEs/>



In conclusion

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The IFRS for SMEs will result in:

- Better quality reporting
- Tailored for the capabilities of small companies
- Tailored for the needs of lenders and creditors
- Understandability across borders.

If capital providers understand and have confidence in the financial figures, an SME's ability to obtain the capital it needs improves. Ultimately, the economy in which it operates improves.



Questions or comments?

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We will have a roundtable Q&A session after Ian, Bruce, and Geoff have made their presentations

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.



The Future of UK & Irish GAAP

Ian Mackintosh
Chairman
UK Accounting Standards Board

IFRS Conference
24 June 2010

Coverage

- Overview of the policy proposals
- Review of what respondents said
- Where we are heading

Background to ASB Proposals

- In the UK quoted group required to report under International Financial Reporting Standards by European law
- All other companies can choose IFRS or existing UK GAAP
- Ireland has chosen to apply UK GAAP

The Future of UK GAAP: The Debate So Far

- ASB has consulted ...extensively.
- March 2004 Discussion Paper.
- March 2005 Policy Statement Exposure Draft.
- May 2006 Tentative Proposals.
- April 2007 Consultation Paper on the IASB's proposed IFRS for SMEs – a turning point.
- Initially a phased approach – now thinking more 'big bang'.
- Strong view that we cannot sustain two different accounting frameworks.

So Where Are We Now?

- ASB published a Policy Proposal: 'The Future of UK GAAP' on 11 August 2009, with a consultation period running through to 1 February 2010.
- Over 150 responses received.

Future UK GAAP: Will it lead to Tiers?

- **Tier – 1 publicly accountable entities – would be required to follow full IFRS (as adopted by the EU) either by choice under the IAS regulation or by incorporating IFRS into GAAP.**

**Future UK GAAP:
Will it lead to Tiers?**

- **Tier – 2 all other UK entities other than small entities – would be required to follow the IASB’s standard for Small and medium-sized Entities (SME standard).**

**Future UK GAAP:
Will it lead to Tiers?**

- **Tier – 3 small entities could choose to continue to follow the ASB’s Financial Reporting Standard for Smaller Entities (FRSSE) (at least for a transitional period).**

Future UK GAAP: Will it lead to Tiers?

- Under these proposals all entities will have the option to voluntarily adopt a higher tier.

Tier 1: Who has Public Accountability

- An entity has public accountability if:
 - Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market including local and regional markets); **OR**
 - It is a deposit-taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities broker/dealer, mutual funds or investment banks.

Tier 1: GAAP Implications

- Is public accountability determined by the nature of the entity alone? Or should size matter?
 - Individual listed companies.
 - Large private companies.
 - Subsidiaries of listed companies.
 - Investment funds and companies.
 - Charities and other not for profits.
 - Building societies, other mutuals and co-operatives.
- Are these entities “publicly accountable?”*
Would full IFRS be appropriate or onerous?

Tier 2: GAAP Implications

- IASB SME standard determining the cut-off points – is it suitable for the very large and/or the small?
- Compatibility with the EU Accounting Directives.
- Potential implications of Commission proposal on micro-entities and UK Government’s simplification project on micro-entities.

Tier 3 GAAP Implications

- Current thinking is to keep the FRSSE, but for how long?
- If indefinitely, ASB would need to 'internationalise' it.
- Potential implications of Commission proposal on micro-entities and UK Government's simplification project on micro-entities.

Public Benefit Entities: The Future?

- Policy Proposal suggested that a standard should be developed addressing "gaps" in IFRS for SMEs for PBE.
- Role of the Charities SORP

What did respondents say?

Tier 1

- Public accountability
 - Strong support for public accountability determining which entities in Tier 1
- But:
 - Certain entities concerned, i.e. credit unions
 - More clarity required

What did respondents say?

Tier 2

- Good support for Tier 2 definition
- Adoption of the IFRS for SMEs YES but many wanted some change
- What about subsidiaries

What did respondents say?

Tier 3

- Agreement that FRSSE should remain for the immediate future, but what to do next?
 - Move to IFRS for SMEs
 - Rewrite FRSSE based on IFRS for SMEs.
 - Wait outcome of EU debate on micros?

Where are we heading?

Issues to be addressed

- Should there be a size criteria for Tier 1
- Definition for public accountability
- Should we amend IFRS for SMEs
 - EU directives
 - tax
 - companies act
- Disclosure requirements for subsidiaries
- How long should we retain the FRSSE
- Specific guidance or a standard for public benefit entities
- Implementation date

Where are we heading?

Way forward:

- Resolve issues
- Roundtable 20 July
- Issue ED (3 quarter 2010)
- Finalise – early 2011
- Applicability 2013?




Applying IFRS for SMEs


The South Africa eXperience!



South African Context



- South Africa began **convergence** to IAS in late 90's
- In 2005, all **listed** companies required to move to IFRS!
- SA GAAP = **IFRS** (except for IFRS 1)
- IFRS/SA Statement of GAAP too **complex** for SMEs
- Corporate Laws Amendment Act provided the gap for **differential** reporting



So what did we do?



- **2007:** South Africa adopted ED IFRS for SMEs
 - SA GAAP for SMEs
 - Needed a **NOW** solution



SA influence in final standard



- **Test** bed for the IASB
- >5000 **companies** reporting in terms of Statement of GAAP for SMEs
- Grant Thornton encouraged **all** clients that met criteria to comply
- Many **practical** implementation issues given to the IASB

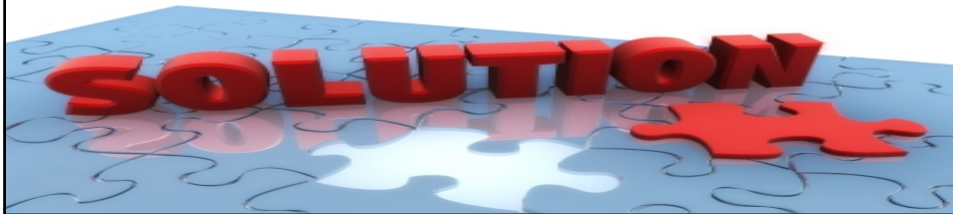


And then....



- **2009:** South Africa adopted the final IFRS for SMEs

– SA GAAP for SMEs: Sunset Clause of 1 year



**SO WHAT'S OUR
*EXPERIENCE....***



The **Good!**



- Reduced Disclosures
 - especially in the area of Financial Instruments!
- Statement of Income and Retained Earnings
- Goodwill Amortisation
- Deletion of the Fall back!
- No regular changes!



The **not** so good...!



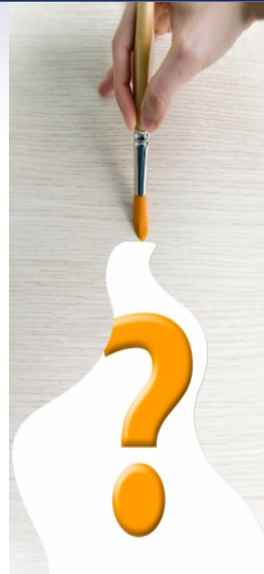
- No revaluations for PP&E
- Expensing of borrowing costs
- Deferred tax
- IFRIC's....and now...???
- Unlisted Equity Investments
- IAS 39 fall back
 - Suitability?
 - IAS 39 vs IFRS 9 (effective dates?)



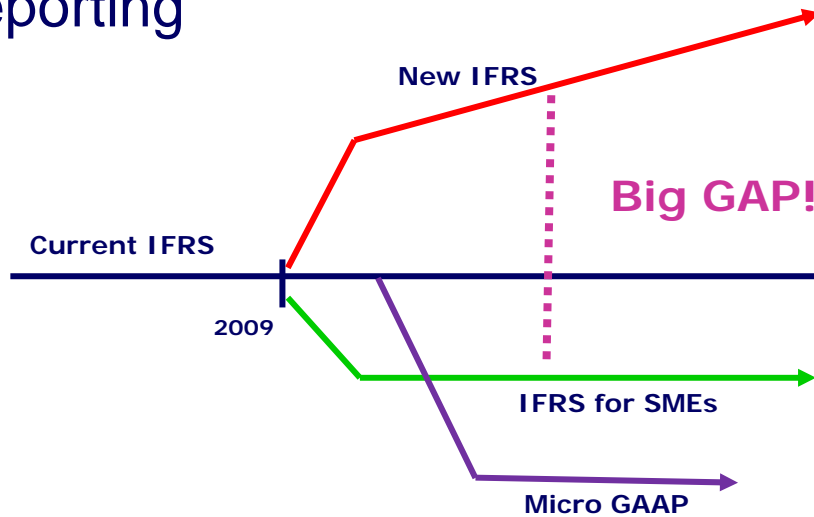
The not so *sure*....



- Leases – smoothing provisions
- Financial Instruments
- Fixed Assets
 - Components
 - Revision of useful life & residual value



New world of multi-framework reporting



Implementation Issues



- IFRS vs IFRS for SMEs
 - Not just about the money
- Regulations
 - Luckily we were in the middle of corporate reform!
- Comparability
 - Getting over it!



Implementation Issues



- **Users**
 - Will the banks accept these?
- **Regulators**
 - Regulators: Audit framework
- **Professional Judgement!**
 - Accountants are like children!



Implementation Issues



- **Education**
 - Not part of University syllabus
 - Practitioners view: Just a step down! (maybe for now...!)
- **Institute response**
 - Training Workshops
 - Implementation Manual
 - E-learning Certificate



Workshops

- Run in 11 centres across the South Africa
- 1 Day and 2 Day courses
- Starting point was IFRS / SA GAAP for SMEs



Implementation Workbook

- Guidance
- Interpretations
- Examples

E-Learning Certificate

- Videos
- Interactive Modules
- CPD
- Certificat



APPLYING
IFRS FOR SMEs
Dynamic E-Learning



Regional **Solution**



- SMEs delivers on a need for the region
 - Need for full IFRS listed
 - In many countries, limited application
 - Being adopted across region!



So where to from here?



Moving forward....



- Continue with implementation
- 2010/11 brings change
 - Audit exemption!
 - New regulatory framework
 - More changes to IFRS (?!)
 - De-convergence!





Contact Details

Bruce Mackenzie

Tel: +27 11 656 5266

E-mail: bruce@wconsulting.co.za

**Visit us at
www.wconsulting.co.za**

Or

www.applyingsmes.com



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**IFRS
for
SMEs**

A personal view by Geoff Britton

IASC Conference - London - June 2010

Presentation Contents

- Speaker Introduction
- EU SME Macro Overview
- The Public Interest
- Global System Advantages
- Required Ingredients for a Successful Global System








Overview

- Formed 1972
- Year on year organic growth
- New business by referral – no external marketing
- 40 staff
- Main focus of expansion on business advice, acquisitions and business sales

Macro Overview

M icro	
S mall	
M edium sized	
E nterprises	

EU – Public Information

Number of companies in the current categories of the 4th Directive		
Category	Number	% of Total
Listed	7,608	0.1%
Large	96,562	1.3%
Medium	206,419	2.9%
Small	1,477,882	20.6%
Micro	5,369,738	75.0%
Total	7,158,209	100.0%

Source: EC Consultation Paper – Modernisation of the EU Accounting Directives, 25 February – 30 April 2009

Public Interest

Secretive ?

Multi-methodologies ?

Eliminate desirable disciplines
required to accommodate growth ?

Public Interest

Standardised ?

Meaningful ?

Engaged ?

Global System Advantages

- **Useful for compliance and comparison**
- **Global standardised system improves capital flows**
- **Cross border understanding enhances cross border trade**
- **International market will provide increased capital value of businesses on disposal**

Global System Advantages

continued

- **Universal application enables use of lower cost economies in preparation**
- **Assists SMPs to compete globally**
- **Encourages global thinking**

Ingredients of a Global System

Integration

Flow

Relevance

Stability

THANK YOU