

IFRS for SMEs

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The IFRS for SMEs

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Good Financial Reporting Made Simple.

- 230 pages (full IFRSs are 3,000+)
- Simplified IFRSs – built on an IFRS foundation
- Completely stand-alone
- Why? Designed specifically for SMEs
 - User needs for information about short-term cash flows, liquidity, and solvency
 - Costs and SME capabilities
- Final standard issued July 2009

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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



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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Millions of companies (over 99%)!

- The 52 largest stock exchanges in the world together have about **45,000** listed companies
- Europe has roughly **28 million** private sector enterprises (SMEs)
- USA has about **25 million**
- UK: **4.7 million** (99.6% under 100 employees)
- Hong Kong: **870,000**
- Brazil: **6 million**

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The public interest

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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

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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

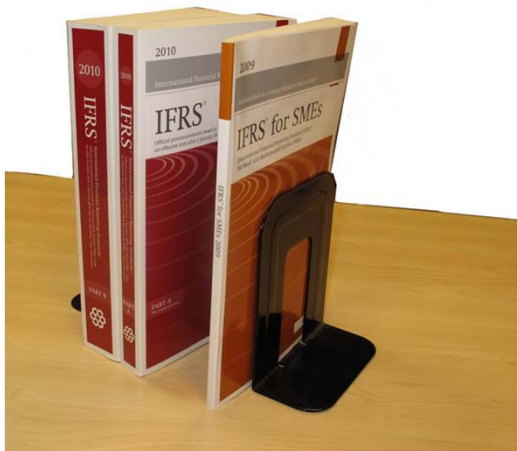
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Disclosure simplifications

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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

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Is it stand-alone or linked to full IFRS?

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Completely stand-alone

- The only 'fallback' option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs

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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 – 85 countries
- **Reduced burden** for entities in jurisdictions where full IFRSs or full national GAAP are now required

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Why would an SME want to adopt It?

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- **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

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”

Jurisdiction plans for adoption

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Today (December 2011), to the best of our knowledge:

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

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Plans for adoption: some examples

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- **South America:** Argentina, Brazil, Chile, Guyana, Peru, Suriname, Venezuela
- **Caribbean:** Antigua & Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
- **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
- **Africa:** South Africa, Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, Tanzania, Swaziland, Uganda, Zambia, Zimbabwe

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Plans for adoption: some examples

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- **Asia:** Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka
- **Middle East:** Jordan, Lebanon, Palestine, Qatar
- **Eurasia:** Azerbaijan, Kyrgyzstan, Moldova, Turkey
- **Europe:** Bosnia, 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

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Implementation support from IASB

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Translations

- **Completed:** Albanian, Arabic, Armenian, Simplified Chinese, Czech, French, Italian, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Spanish, Turkish
- **In process:** Hebrew, Japanese, Kazakh, Khmer, Serbian, Ukrainian
- **Proposed or in discussion:** Bosnian, Bulgarian, Burmese

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Implementation support from IASB

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Free training workshops (regional, 3 days)

- **To date:** In Malaysia, India, Tanzania, Egypt, Gambia, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Argentina, Myanmar, Dubai, Barbados, Bosnia, Kenya
- **Upcoming in 2011:** Chile
- **Others in planning for 2012**

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SME Implementation Group (SMEIG)

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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:
 - 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

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Comprehensive review of IFRS for SMEs

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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
- SMEIG will take the lead on this

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

Comprehensive review of IFRS for SMEs

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Estimate of initial update:

- 2010 and 2011 first two years of experience
- 2H 2012 begin review
 - Invitation to comment late 2012
 - IASB Exposure Draft mid-2013
 - Final amendments late 2013 or 1H 2014
- 2014 earliest effective date of amendments, more likely 2015
 - **So, 4-5 year “stable platform”**

Free self-study training materials

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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
- Self study

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Free self-study training materials

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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

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Free monthly SME Update newsletter

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Monthly IFRS for SMEs Update newsletter

- Free subscription delivered by email
 - 11,000 subscribers
- Topics typically covered:
 - New adoptions and translations
 - SMEIG activity
 - All draft and final Q&As
 - Training materials
 - Train the trainers workshops
 - Staff commentaries
 - Links to resources

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Free downloads from IASB

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IFRS for SMEs (full standard, translations):

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

Training materials (35 modules):

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

PowerPoint training modules (20 PPTs):

<http://go.ifrs.org/trainingppts>

Board and staff presentations:

<http://go.ifrs.org/presentations>

Update newsletter:

<http://go.ifrs.org/smeupdate>

Implementation Group Q&As:

<http://go.ifrs.org/smeig>

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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

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Thank you

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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.



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