

The IFRS for SMEs

IFRS Conference, Dubai
13 September 2012

Paul Pacter, IASB
Darrel Scott, IASB

Copyright © 2012 IFRS Foundation.
All rights reserved.



The IFRS for SMEs

2

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



Tailored for the needs of SMEs

3

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

Copyright © 2011 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Who is eligible to use it?

4

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)

- GPFS present fairly financial position, results of operations, and cash flows

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Who is the Standard aimed at?

5

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)
- Brazil: **6 million**

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Who is the Standard aimed at?

6

- Dubai: over **100,000** registered companies
- Abu Dhabi: over **50,000** registered companies

“SMEs are backbone of Dubai’s economy. Being an important player in all value chains, SMEs represent 95% of all firms registered in UAE.”

Govt. of Dubai Dept. of Economic Development website

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



The public interest

7

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

The public interest

8

In most countries all or many SMEs are required by law to prepare GPFS

- Europe: 8 million companies have a 'statutory audit' obligation
- Hong Kong – Every company including micros (900,000): GPFS + Audit
- Brazil – 6,000,000 SMEs required
- Etc etc for nearly all countries, but...

The public interest

9

But... in US, Australia, and a few others, only publicly traded companies and a limited number of others must prepare GPFS

- Each jurisdiction must decide for itself what is in the public interest

Support for IFRS for SMEs

10

World Bank press release July 2009:

“The IFRS for SMEs provides a valuable financial reporting reference framework for smaller entities that is more responsive to the size and ownership of their operations, and should help improve their access to finance. In countries that have already adopted IFRS as the national accounting standard, the simplifications introduced by the SME standard will provide much needed relief.”

IFAC press release July 2009:

“This global accounting standard represents a very significant step on the path to global convergence of financial reporting practices by SMEs. It will contribute to **enhancing the quality and comparability of SME financial statements** around the world and **assist SMEs in gaining access to finance**. The beneficiaries will be not only SMEs, but also their customers, clients, and all other users of SME financial statements.”



How did we simplify?

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



Examples of Omitted Topics

13

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

Examples of Omitted Complex Options

14

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

Recognition & Measurement Simplifications

15

- Financial instruments:
 - Two classifications, not four
 - Drop “continuing involvement approach” for derecognition
 - Much simplified hedge accounting
- Goodwill amortisation
- Goodwill impairment – indicator approach
- Expense all R&D
- Cost method for associates and JVs

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Recognition & Measurement Simplifications

16

- 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

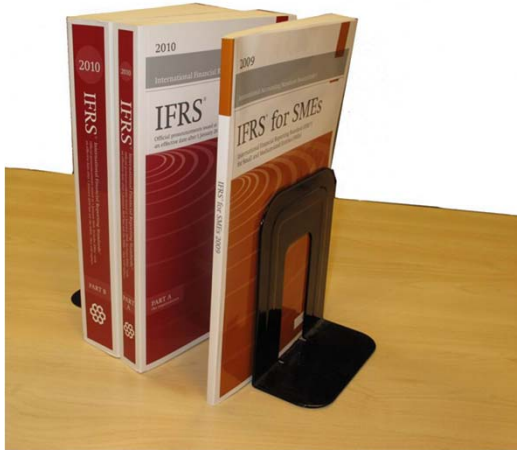
Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Disclosure simplifications

17

Big reduction in disclosures:



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

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Financial statement presentation

18

- **Fair presentation:** presumed to result if *IFRS for SMEs* is followed (maybe need for supplemental disclosures)
- **Full compliance:** State compliance with *IFRS for SMEs* only if the financial statements comply in full
- **Comparatives:** At least one year comparative financial statements and note data



- **Complete set of financial statements:**
 - Statement of financial position
 - Either single statement of comprehensive income, or two statements: Income statement and statement of comprehensive income
 - Statement of changes in equity
 - Statement of cash flows
 - Notes

- **Can omit statement of comprehensive income and just do a basic income statement if SME has no items of OCI**
 - There are only 3 items of OCI in IFRS for SMEs and few SMEs will have any

- **Can omit statement of changes in equity and just do a combined statement of income statement and retained earnings if there are no owner investments or withdrawals other than dividends**

Completely stand-alone

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

Why would an SME want to adopt It?

23

- **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

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Why would an SME want to adopt It?

24

- **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

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



What would the audit report say?

25

- **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

26

Today (September 2012), 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

Adoption: some examples

27

- **South America:** Argentina, Bolivia, Brazil, Chile, Ecuador, 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

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Adoption: some examples

28

- **Asia:** Bangladesh, Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, 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

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Implementation support from IASB

29

Translations

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

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Implementation support from IASB

30

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, Dubai, Barbados, Bosnia, Kenya, Chile, Cameroon, Bangladesh, Ukraine, Mongolia
- **Upcoming in 2012:** Abu Dhabi

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



Implementation support from IASB

31

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

Copyright © 2012 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org



SME Implementation Group (SMEIG)

32

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



7 Q&As so far - topics

33

- Use of IFRS for SMEs in parent's separate statements
- Meaning of 'traded in a public market'
- Entities that typically have public accountability
- Fallback to IFRS 9
- Application of 'undue cost or effort'
- Fallback to full IFRSs
- Recycling of foreign exchange differences

Q&As are available in English and Spanish.



Comprehensive review of IFRS for SMEs

34

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



Comprehensive review of IFRS for SMEs

35

- Request for Information issued June 2012
 - Comments due 30 November 2012
 - Includes questions about individual technical issues plus general questions
- Responses will help IASB decide whether there is a need for any amendments and which ones
- ED planned 2H 2013
- Revisions (if any) early 2014, effective 2015
- <http://www.ifrs.org/IFRS+for+SMEs/Review2012.htm>



Comprehensive review of IFRS for SMEs

36

The Request for Information includes

- 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



Comprehensive review of IFRS for SMEs

37

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



Free self-study training materials

38

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



Free self-study training materials

39

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



Free monthly SME Update newsletter

40

Monthly IFRS for SMEs Update newsletter

- Free subscription delivered by email
 - 15,000 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



Executive briefing booklet

41

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



Guidance booklet on micro SMEs

42

IASB staff are developing guidance to help micro-sized SMEs apply IFRS for SMEs

- Tiny companies (eg 1-10 employees)
- Not a new standard
- Extract relevant principles from IFRS for SMEs
- SMEIG review, Board review
- Guidance booklet will contain cross-references to IFRS for SMEs for matters omitted in micro booklet



IFRS for SMEs section of IASB website

43

go.ifrs.org/SMEsHome – Sections:

- Download standard and translations
- Comprehensive review
- SME Implementation Group
- Q&As
- Training material
- Training workshops and PPTs
- Update newsletter
- Presentations, webcasts, resources
- Project history



Free downloads from IASB (1 of 2)

44

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:

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



Free downloads from IASB (2 of 2)

45

Q&As

www.ifrs.org/IFRS+for+SMEs/QAsSMEs.htm

Comprehensive review

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

Executive briefing booklet

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



In Conclusion

46

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?

47

Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

