



IFRS for SMEs

Consultative Committee of
Accountancy Bodies - Ireland

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9 December 2009

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The Final IFRS for SMEs

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Good Financial Reporting Made Simple.

- 230 pages
- Simplified IFRSs, but built on an IFRS foundation
- Designed specifically for SMEs
- Internationally recognised
- Final standard issued 9 July 2009
- Vote: 13 assents, 1 dissent



Who are we aiming at?

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Non-publicly accountable entities that must produce general purpose financial statements (GPFS)

- Present fairly financial position, operating results, and cash flows
- For external capital providers and others
- Which entities must produce GPFS is a public interest issue
 - Decided by legislature and regulators, not by IASB



Who is eligible to use it?

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Which entities do not have public accountability?

- Securities not publicly traded
- Not a financial institution
- Over 99% of private entities around the world are eligible to use the standard



Who is eligible to use it?

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No quantified size test

- Though a jurisdiction could add one

An entity may use IFRS for SMEs even if:

- It is economically significant (large)
- It is a public utility (electric, gas, water)
- It is a subsidiary of a listed company (if the sub itself is not listed)
- But a jurisdiction could add restrictions



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



Steps to get to the final Standard

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- Sept 2003: World Standard Setters survey
- June 2004: Discussion Paper (117 comments)
- April 2005: Questionnaire on recognition and measurement (94 responses)
- Oct 2005: Roundtables on R&M (43 groups)
- Feb 2007: Exposure Draft (162 comments)
- Nov 2007: Field tests (116 real SMEs)



Steps to get to the final Standard

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- Mar – Apr 2008: Board education sessions
- May 2008 – Apr 2009: Redeliberations
- May 2009: Near-final draft posted on IASB website
- 1 June 2009: Ballot draft sent to the Board
- 9 July 2009: Final IFRS for SMEs issued



Steps to get to the final Standard

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Big changes in Board thinking along the way:

2004 Discussion Paper	2009 Final IFRS for SMEs
Only disclosure simplifications	Recognition and measurement also
Mandatory fallback to full IFRSs	Completely stand-alone
SME standard updated for every amendment to full IFRSs	Once every 3 years consider need to update
Keep all options in full IFRSs	Only the simpler options
Large unlisted, public service, subs of IFRS users cannot use	These are all eligible to use
All owners must agree to use	No such requirement



Steps to get to the final Standard

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Also along the way – some “firsts” for the IFRS for SMEs:

- **First** discussion paper ever from IASB
- **First** exposure draft published in other than English
- **First** field testing
- **Largest** IASB Working Group ever
- **First** full set of model financial statements
- **First** presentation and disclosure checklist



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 2,855 in full IFRSs)
- **Simplifications** from full IFRSs
- **Organised by topic**
- **No 'black letter'**



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



Examples of omitted topics

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



Examples of omitted complex options

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



Recognition & measurement simplifications

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



Recognition & measurement simplifications

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- Much less fair value for agriculture
- Expense all borrowing costs
- Defined benefit plans: No corridor or deferrals
- First-time adoption: Less prior data
- Defined benefit – not required to use projected unit credit method if impracticable
- Share-based payment – can use directors’ judgement in estimating value



Disclosure simplifications

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

Kept: Disclosures about short-term cash flow, liquidity, solvency, measurement uncertainties, accounting policy choices

Dropped: Disaggregations, public capital market disclosures



Why would an SME want to adopt it?

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- Improved access to capital
- Improved comparability
- Improved quality of reporting as compared to existing national GAAP
- Less of a burden for entities in jurisdictions where full IFRSs or full national GAAP are now required



What's Next?

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- Translations:
 - Spanish translation published 17 Sept 2009
 - Others planned
- Development of training materials (English version late 2009)
- 'Train the trainers' courses (2010)
- Promote adoptions around the world
- Form SME Implementation Group to publish unofficial Q&A on implementation issues and advise IASB on need for amendments



IASCF training materials for PEs

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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**
- Finish by end of 2009 (English)
- Other languages in future (funding?)
- Free of charge – download



Can SMEs simply choose to adopt it?

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Depends on local law

- USA – yes. IASB is now the second designated standard setter (along with FASB) in the AICPA code of ethics.
- Other countries, also, adoption is “automatic”.
- In some countries, however, currently only full IFRSs and local GAAP can be used. There would need to be a change to local law or regs to permit adoption of the IFRS for SMEs.



Can SMEs simply choose to adopt it?

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What about the European Union?

- Neither required nor prohibited by the accounting Directives
- Not inconsistent with the 4th and 7th Directives (we believe)
- Today there are about 55 different SME GAAPs in the EU!
- EC has launched a consultation on IFRS for SMEs – comment deadline 12 March 2010



Jurisdiction plans for adoption

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- Brief survey sent to all invitees to World Standard Setters' meeting Sept. 2009
- **Simple question:** Do you plan to require or permit adoption in the next 3 year – Yes? No? Maybe? Comments?
- **Responses received from 51 jurisdictions**



Jurisdiction plans for adoption

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Overview of 51 responses:

	Number of Jurisdictions
Plan to require	19
Plan to permit	12
May require or permit	9
No plan to require or permit	11



What would the audit report say?

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- **Something like:**

“Give a true and fair view of 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 possible effective date of amendments
 - **So, five year “stable platform”**



Questions or comments?

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On any aspect of the content of, or due process leading to, the IFRS for SMEs.

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.

