



IFRS for SMEs

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Content



1. IFRS for SMEs
2. SMP/SME Issues – covered in papers
3. Strategy – covered in papers
4. Input to Standard Setting – covered in papers
5. Practical Support – covered in papers

1 IFRS for SMEs

Exposure Draft



- On February 15, 2007 IASB issued an Exposure Draft (ED) of proposed *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*
- Deadline for comments is October 1, 2007

1 IFRS for SMEs



- SMEs are defined as entities that:
 - do *not* have public accountability; *but*
 - publish general purpose financial statements (GPFS) for external users
- IFRS for SMEs is appropriate for an entity with no public accountability:
 - not publicly traded; *or*
 - not a financial institution
 - No quantified size test

1 IFRS for SMEs



- Self-contained set of principles for SMEs:
 - based on full IFRSs
 - modifications based on user needs and cost-benefit
- Reduction in volume vs. full IFRSs
- Enables users to compare SMEs' financial performance, financial condition and cash flows

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- Provide emerging economies with internationally recognized benchmark
- Results in GPFS on which auditor can express an opinion
 - Simplified plain English to help preparers
 - Develop a standard suitable for smallest of SMEs

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Due Process



- World Accounting Standard Setters (Sept. 2003)
 - Discussion paper (June 2004)
 - Recognition and measurement (R&M) questionnaire (April 2005)
- Public roundtables on R&M (Oct. 2005)
- Deliberations at 30 Board and 6 SAC

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- Developed by extracting fundamental concepts from IASB *Framework for the Preparation and Presentation of Financial Statements*
- Modifications in the light of user needs and cost-benefit considerations.

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Modifications



- Material not relevant to typical SME omitted, with cross-references to

full IFRSs if needed:

- Hyperinflation
- Equity-settled share-based payment
- Determining FV of agricultural assets
- Extractive industries
- Interim reporting
- Lessor finance leases
- Recoverable amount of goodwill
- EPS and segment reporting

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Modifications



- Only simpler of options in full IFRS are included while other (s) cross-referenced:

Cost for investment property

Cost for PP&E and intangibles

Expense all borrowing costs

Indirect operating cash flows

One method for all grants

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Modifications



• Recognition and measurement simplifications:

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

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Modifications



• Recognition and measurement simplifications:

- Less fair value for agriculture – only if “readily determinable without undue cost or effort”
- Defined benefit plans – principle approach, no corridor tests
- Share-based payment – intrinsic value
- First-time adoption – less prior data
- Leases – simplified calculations

1 IFRS for SMEs

Maintenance and Organization



- Organized by topic
- Update IFRS for SMEs every 2 years
- Omnibus Exposure Draft

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Next Steps



- Exposure period ends October 1, 2007
 - Final Standard – 1H 2008
- Continued round-tables with SMEs, SMPs and national standard setters
- Field tests – deadline of October 31, 2007

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IFAC's Role



- IFAC is highly supportive of project
 - Responding to ED
 - Helping IASB conduct field tests
 - Encouraging member bodies and regional accountancy organizations to participate
 - **Organizations present should seriously consider participating**

1 IFRS for SMEs
SMP Committee's Views



- Followed and input to SME project since 2003
 - Globally applicable standard, consistently implemented
 - Favorable cost-benefit outcome
 - Significant milestone for global accountancy profession

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SMP Committee's Views



- Scope
- Users and user needs
 - Cost-benefit
 - Micro-entities
 - Stand-alone
- Measurement basis
- Recognition and measurements

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SMP Committee's Views



- Phase 1 – Information Paper
- *Micro-Entity Financial Reporting: Perspectives of Preparers and Users, December 2006*
 - Inform debate and prompt discussion
 - Summary of research evidence
- Disproportionate regulatory burden

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SMP Committee's Views



- Phase 2 - focus group interviews of owners, preparers, and financiers
- Fieldwork completed in UK, Kenya, Poland and Uruguay; Italy, India and Malaysia to follow
- Identify any changes to ensure IFRS for SMEs suits micro-entities



ICAC 25th Annual Accountants Conference
June 30, 2007

IFAC Member Body Compliance
Program

*Russell Guthrie – Director – Quality Assurance
and Member Relations*

Part 2 Update



Response status

Completed

Part 2 responses published 141

Part 2 with members / associates for 6

Part 2 review completed and under Staff 7

~~Subtotal~~ *Subtotal Part 2 completed* 154

Excused (Iraq) 1

Total Members and Associates 155

Parts 1 and 2



- High level of external interest

380,000+ Page views on IFAC website (1-05 to 4-07)

IOSCO

EGAOB – Assessment of Auditor Oversight

WB/RDBs

National regulators (FRC, IRBA)

E-Standards Forum

Part 3



- Development of “Policy Recommendations” by IFAC Staff based on Part 2 responses
- Member Bodies develop Action Plans based on the above
- Action plans must be:

Part 3 – Key aspects



- Buy in by member body is essential
to success

Board/Council

Technical Committees

Management

Key Volunteers

Part 3 – Key aspects



- Iterative process
- Confirm Recommendations

3 months

- Prepare Action Plan

6 months

Why is this important?



- Increased interest and focus on program by IFAC Board
- Increasing level of regulatory body interest
- Increased attention, observation and

Why is this important?



- Opportunities:
 - For the profession to demonstrate leadership and pro-activity
 - To engage country stakeholders who must also assist
 - To obtain resources to make the necessary



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