

An International Financial Reporting Standard for SMEs

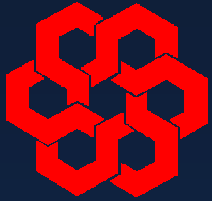
Paul Pacter

**IASB Director of Standards for
Small and Medium-sized Entities**

**Meeting with German SME Field
Test Participants**

Berlin

3 December 2007



IASB Exposure Draft

- **IASB proposed IFRS for SMEs:**
 - Simplified principles tailored for SMEs
 - Self-contained (nearly)
 - Based on full IFRSs, which are developed for public capital markets
 - Modifications based on:
 - **User needs**
 - **Cost-benefit**



IASB Exposure Draft

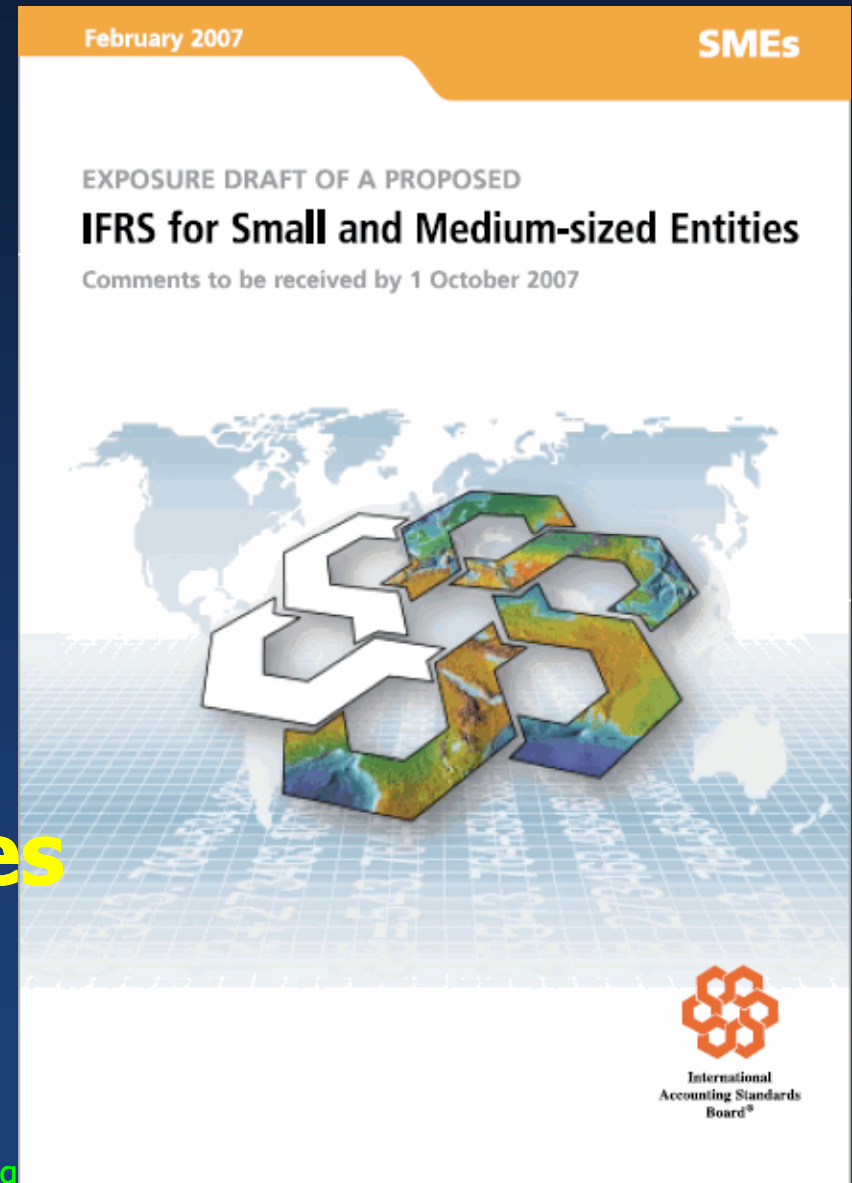
▪ **SME user needs:**

- **Focus more on short-term cash flows, liquidity, and solvency**
 - **Must have cash flow statement**
 - **No hidden “off balance sheet” liabilities like unfunded pensions, capital leases, derivatives, contracts, and (at least) deferred income taxes that will reverse in the short-term**
 - **Short-term items at current measurements**
- **Less interest in long-term earnings forecasts or long-term cash flows**



Exposure Draft – IFRS for SMEs

- **Organised by topic**
- **ED 254 pages**
 - Plus illustrative financial statements, disclosure checklist, basis for conclusions
- **Board vote: 13 to 1**
- **Published:**
 - 15 February 2007
- **Translations: 5 languages**
- **Comment deadline now:**
 - 30 November 2007





IASB Definition of SME

- **IASB view:**

- **IFRS for SMEs is appropriate for an entity with no public accountability:**

- **not publicly traded; and**

- **not a financial institution.**

- **Terminology:**

- **Perhaps IASB should use “non-publicly accountable entity (NPAE)” rather than SME.**



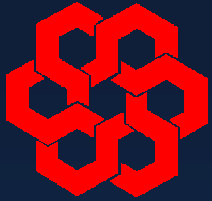
Objective of IFRS for SMEs

- **General purpose financial statements for external users, including:**
 - **Non-manager owners**
 - **Existing and potential lenders, vendors, creditors, customers**
 - **Credit rating agencies**
- **Enable users to understand and compare SME's financial performance, financial position, and cash flows**
- **Auditor could give opinion on fair presentation (true/fair view)**



Simplifications from Full IFRSs

- **Five kinds of simplifications based on user needs and cost-benefit tradeoffs:**
 - 1. Some topics in IFRSs omitted if irrelevant to SME**
 - 2. Where IFRS has options, include only simpler option**
 - 3. Recognition and measurement simplifications**
 - 4. Reduced disclosures**
 - 5. Simplified drafting**



Since ED Was Issued

- **Extraordinary outreach effort**
 - Presentations at 85 conferences and roundtables in 37 countries
 - Including 63 since ED was issued
 - Plus 8 published articles
- **Compliance checklist**
- **Comment period was extended to 30 November**
 - Over 110 letters so far



Field Tests

- **Field Test Questionnaire:**
 - English, Spanish, French.
 - Plus compliance checklist.
- **Real SMEs try to prepare financial statements, tell us problems:**
 - Understandability of the ED?
 - Problems in applying the ED?
 - Lack of available data?
 - Need to look to full IFRSs?
 - Around 100 SMEs participating.
- **Request by 30 November 2007.**



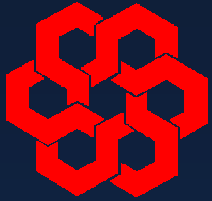
Issues in Early Letters and Roundtables

- 1. Eliminate all cross references to full IFRSs**
- 2. Simplify income taxes**
- 3. Eliminate or restrict consolidation**
- 4. Amortise goodwill & other intangibles**
- 5. Restrict use of FV to**
 - a. quoted market price or
 - b. readily determinable without undue cost or effort (plus all derivatives)
- 6. Don't require component depreciation**



Issues in Early Letters and Roundtables

- 7. Clarify use of IFRS for SMEs by subsidiary of a full IFRS entity**
- 8. Simplify defined benefit pension plans**
- 9. Simplify share-based payment**
- 10. Leases – do not require:**
 - **Straight-line for operating**
 - **Finance lease measured only at FV**
- 11. Impairment: Allow value in use**
- 12. Further disclosure simplifications**



Early Adoptions

- **South Africa (effective Oct. 2007):**
 - Word for word for all unlisted companies that do not use full IFRSs
- **Australia:**
 - Proposed for largest 25,000 unlisted
- **Denmark:**
 - Planning legislation to permit
- **UK:**
 - Likely to permit



IFRS for SMEs in Europe

- **IAS Regulation neither requires nor prohibits Member States' use of IFRS for SMEs**
- **Decision rests with Member States**
 - **Whether, which companies, and when**
- **Consistent with 4th and 7th Directives.**
- **Nearly all EU MS now either require or permit all SMEs to use full IFRSs (2,700 pages)**
- **50+ SME GAAPs in Europe today!**



IFRS for SMEs in Europe

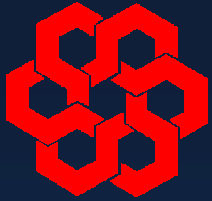
- Under IAS Regulation, MS may require or permit IFRSs for unlisted companies. Status:

Consolidated F/S		Separate Statements	
IFRSs required	IFRSs permitted	IFRSs required	IFRSs permitted
<p>CY, MT, SK.</p> <p>Banks: BG (also large), EE, LV, LT, PO, SI</p>	<p>AT, BE, DK, FI, FR, DE, GR, IT (x small), IE, LV, NL, PT, ES, SE, UK, NO, IS, LI, CZ, EE, HU, PO (some), BG</p>	<p>CY, MT.</p> <p>Banks: BG (also large), EE, LV, LT</p>	<p>DK, FI, DE, GR, IT (x Ins & small), LU, NL, PT (some), UK, NO, IS, LI, EE, PO (some)</p>



IFRS for SMEs in Europe

- **Commissioner McCreevy speech:**
 - “Not simple enough for the bulk of SMEs in EU”.
 - EC will not propose to change directives or IAS regulation.
- **UK ASB letter expressing disappointment at speech:**
 - “Large degree of support” in UK.
 - “Strong majority in favour” for all SMEs except micros.



Interest in the United States

- **Could private companies in the US use the IFRS for SMEs?**
- **Does not appear to be a reason why not**
 - **No statutory audit requirement in US**
 - **Basis of presentation note would refer to conformity with IFRS for SMEs**
 - **If audited, auditor would report on conformity with IFRS for SMEs**
- **Strong support from FEI**



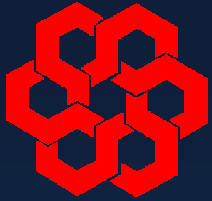
IASCF Training Materials for SMEs

- **Developed by IASC Foundation**
 - **One module per IFRS for SMEs Section (ED has 38 sections)**
 - **Sec. 16 PP&E is 7 A5 pages long.**
 - **Training module is 32 A4 pages, many examples, good stuff!**
 - **Finish by first quarter 2009**
 - **Train the trainers**
 - **Multiple languages**
 - **Free of charge!**
- **Software? Yes, commercially (not IASCF).**



Next Steps

- **Staff analyses of comments and field tests, recommendations for changes to the ED: To the Board March 2008**
- **Working Group meet: April 2008**
- **Board redeliberations: 2Q-4Q 2008**
- **Final Standard: End of 2008**
- **Effective: Whenever adopted locally**
- **Training materials: 1Q 2009**



Thank you. Questions?

EXPRESSIONS OF INDIVIDUAL VIEWS BY MEMBERS OF THE IASB AND ITS STAFF ARE ENCOURAGED. THE VIEWS EXPRESSED IN THIS PRESENTATION ARE THOSE OF DR. PACTER. OFFICIAL POSITIONS OF THE IASB ON ACCOUNTING MATTERS ARE DETERMINED ONLY AFTER EXTENSIVE DUE PROCESS AND DELIBERATION.

