

International Federation of Accountants

Perspectives on IFRS for SMEs

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Medium Practices Committee

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IFAC's Mission

“... is to serve the public interest by: contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession's expertise is most relevant.”

Importance of SMEs and SMPs

- IFAC Global Leadership Survey 2010
 - 95% said addressing needs of SMEs & SMPs is very important/important
- SMEs key to sustainable growth and public interest
- High quality, internationally comparable financial reporting will help SME sector
- SMPs provide a range of high-quality professional services to SMEs
- SMPs bring choice & competition into market

IFAC SMP Committee - Strategic Objectives

- Participate in policy-making and regulatory dialogue (proportionate, stable, relevant)
- **Input to development of international standards (proportionate, stable, relevant)**
- Raise awareness of importance of SME sector and role of SMPs (voice and visibility)
- Provide practical support to SMPs (capacity building)

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Small and Medium Practices Committee



IFAC's Small and Medium Practices (SMP) Committee works to raise the profile and build the capacity of SMPs globally, representing their interests to standard setters and regulators and developing tools and resources to promote their continued success.

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Discussion Board

What challenges does your practice face in offering more business advice to SME clients?

What regulatory change/measure do you think would most help ease the regulatory burden for your practice and its SME clients?

Do you agree that the concepts underlying Integrated Reporting will be equally applicable to SMEs?

How does increasing the thresholds for mandatory audit impact your firm and your SME clients?

[View all discussions >](#)



- > [Towards Integrated Reporting: communicating value in the 21st century - free webinar on November 15](#)
<http://t.co/G3r7f4P9>
(3 hours ago)
- > [The Top Ten Things the AICPA Wants You to Know about ?The Future of the Profession? -](#)
<http://t.co/bGecaxGT> via @cpa_trendlines
(3 hours ago)

SMP eNews

Features news related to SMPs and their small- and medium-sized entity clients, including resources, the SMP Quick Poll, and more. [Subscribe here!](#)

- > [August 2011](#)
- > [April 2011](#)
- > [January 2011](#)

Key Contacts

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IFAC Role in Development of IFRS for SMEs

- Closely monitored project and regular input:
 - 2004 discussion paper
 - 2005 staff questionnaire
 - 2006 Roundtable participation
 - 2007 Exposure Draft
- IFAC Board publicly supported project
- Micro–entity reporting research (2 papers)

IFAC View of Outcome

“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” (Press Release, July 2009)

IFAC View of Outcome

- IASB followed thorough & open due process
- Significant simplification from full IFRS – addresses many concerns raised on exposure
- SMO (Statement of Membership Obligation)
7: IFRS under revision:
 - *may* encourage parties to consider the use of IFRS for SMEs in relation to non-public interest entities

General Approach

- Public interest will *only* benefit if properly adopted and implemented
- Major challenge, especially for SMPs and developing nations
- Awareness amongst SMEs is spotty
- Need for coordinated support (education / training, guidance, tools etc.) and sharing of experiences & approaches

IASB Initiatives

- IASCF training materials
<http://www.iasb.org/IFRS+for+SMEs/IFRS+for+SMEs.htm>
- Translations of standard & training materials
- Regional training workshops around world
- Review after 2 years (then every 3)
- SME Implementation Group (SMEIG) to develop Q&As: SMP Committee serves on this

Micro Entities

- SMP Committee keeping watching brief
- Some have questioned suitability (e.g., Nexia)
- Exclude from the requirement to prepare & publish financial reports? (like the US?)
- If no exclusion then use IFRS for SMEs or Micro-GAAP?

International Adoption

- 74 countries either already adopted it or plan to within 3 years (IASB, Sept. 2011)

http://www.ifrs.org/NR/rdonlyres/C4043A9E-D607-46CA-BC68-06FF7EC672A0/0/1109WSS_SME.pdf

- South Africa has chosen 3-tier system (IFRS, IFRS for SMEs & Micro-GAAP)
- UK may use similar 3 tier approach
 - IFRS for SMEs “would be modified to comply with UK and EU law and to ease tax reporting”

Case Study – EU:

- Current EU situation:
 - Full IFRS compulsory for all listed entities in all Member States; EFRAG provides advice to EU Commission before endorsement
 - EU Accounting Directives set detailed accounting requirements for non-listed entities. Member States must comply with requirements and may (or may not) have local GAAPs, as long as they comply with the Directives
 - Smaller SMESs are allowed to present “abridged” financial statements, if a Member State implements this option (abridged presentation is still based on same EU accounting requirements and local GAAPs)
 - A significant number of Member States have compulsory filing and publication requirements for SME financial states; some Members States strongly oppose
 - No Member State has adopted IFRS for SMEs yet; UK and Ireland plan to adopt

Case Study – EU:

- Developments in the near future:
 - EU Commission has started review process of SME accounting requirements: review of Accounting Directives / adoption of IFRS for SMEs?
 - EC consultation on IFRS for SMEs: evidence that some Member States are willing to implement IFRS for SMEs, while many others are not interested or against adoption
 - Micros are a hot issue: proposal to reduce the administrative burden might lead to reduced or no requirements for filing an publication of FS

Case Study – EU:

- At the Commission's request, EFRAG issued in 2010 an "Advice on compatibility of the IFRS for SMEs and the EU Accounting Directives" highlighting the following significant incompatibilities between IFRS for SMEs and the current EU Accounting Directives:

The prohibition to present or describe any items of income and expense as „extraordinary items“ in the statement of comprehensive income (or in the income statement, if presented) or in the notes

The requirement to measure some financial instruments (non-basic financial instruments) at fair value

The requirement to presume the useful life of goodwill to be ten years if an entity is unable to make a reliable estimate of the useful life

The requirement to recognize immediately in profit or loss any negative goodwill

The requirement to present the amount receivable from equity instruments issued before the entity receives the cash or other resources, as an offset to equity and not as an asset

The prohibition to reverse an impairment loss recognized for goodwill

- EU Commission has said that the review of the Accounting Directives might lead to some, not all, of these incompatibilities being removed

Case Study - Italy

- Italian civil code requires unlisted companies to apply specific accounting requirements, according to the European directives
- OIC is the Italian accounting standard setter – long-established local GAAP, application required for non-PIEs
- Italian GAAP – which are undergoing a review and update over the next two years – can interpret and integrate the accounting requirements set by law
- Smaller companies can adopt abridged financial statements (same local GAAP, abridged presentation)
- IFRS for SMEs may not be applied in Italy. There are some additional incompatibilities, such as: financial instruments may not be measured at fair value, investment property may not be measured at fair value, R&D costs are capitalized when some requirements are met, borrowing costs are capitalized when some requirements are met.



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QUESTIONS

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