

Is the IFRS for Private Entities on the right track?

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IFRS for Private Entities: significant involvement by EFRAG

- EFRAG active in the project at its very early stage
- EFRAG highly contributive to the IASB due process
- However no further work or deliberation since EFRAG comment letter has been issued

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Main recommendations made by EFRAG

- ❑ Make the scope 100% clear: change the label
- ❑ Make the final standard a truly stand-alone document
- ❑ Carry out a thorough analysis of users' needs
- ❑ Adjust recognition and measurement requirements to those needs
- ❑ Decide further simplifications

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EFRAG's perceptions of users' needs in a PE environment

- ❑ Less complex and sophisticated financial reporting
- ❑ Standardisation in the preparation and presentation of accounts valued
- ❑ Greater focus on the ability to generate positive future cash-flows in the normal course of business
- ❑ Greater need to assess the effectiveness of management and of selected strategies

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The IFRS for PE's: towards a missed opportunity?

- In the early stages, a top/down approach was widely supported:
 - Same conceptual framework
 - Same detailed requirements if appropriate
- Still at this late stage, the IFRS for PE's appears to be limited to being a by-product of the IFRS standard setting process
 - It should be a standard in its own right

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Set the IFRS for PEs as a standard in its own right

- To set the IFRS for PEs as a standard in its own right would provide significant benefits:
 - To provide from the outset a standard, easy to understand, easy to implement
 - To make the IFRS for PEs more attractive at a time when it will first be considered for adoption or use
 - To protect PEs from the need to endure changes in their accounting practices in later periods and to bear the costs associated with those changes

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The IFRS for PEs: what the IASB should do

- To carry out the necessary users' need analysis
- To reconsider two « rules » which have no justification, either in terms of cost/benefit or users'needs
 - To keep all existing IFRS options in the IFRS for PEs
 - Not to allow the IFRS for PEs to be « ahead » of IFRS
- To refrain from « updating » the IFRS for PEs prior to finalisation and without any specific due process when reaching conclusions in active IFRS projects (revised IAS 1, ED9, concepts etc...)
- To give greater weight to comments received (amortisation of goodwill, impairment etc...)

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The IFRS for PEs: why similarity at the conceptual level is all what is needed

- Most PEs will never go public and hence may never apply full IFRS;
- IFRS for PEs, being easier to implement than full IFRS, will facilitate more cost-efficient accounting and financial analysis practices;
- There is little need for comparability between listed and non-listed entities; when such need for comparability arises, the option to adopt full IFRS will be available for private entities

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The IFRS for PEs: choosing between an acceptable standard and a high quality standard

- Likely that the IFRS for PEs will be widely adopted and applied
- Acceptance no real sign that it is as good as it could be:
 - No standard setting past experience in some jurisdictions
 - The international feature makes it appealing
 - Will bring relief where full IFRS or well advanced convergence programs have been adopted
- Europe is the area where mandatory financial reporting by private entities is a long standing practice
 - Greater quality would arise from giving greater credit to European comments and proposals
 - Offer made by EFRAG to further discuss and build on EFRAG's proposals has been declined

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The IFRS for PE's: running any chance in Europe? (1)

- European stakeholders have shown great interest in the project
 - Almost 50% of comment letters come from Europe
- Sharing a common set of accounting standards in Europe
 - Strong appeal to small and medium size companies in Europe
 - Re: Mazars' Survey in 6 European Companies (mazars.eu)
- The IFRS for PE's outside the scope of the IAS Regulation
- No political willingness to propose specific regulation/legislation

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The IFRS for PE's: running any chance in Europe? (2)

- Adoption by Member States possible if in line with 4th and 7th Directives
- Some Member States have already indicated their intention to adopt the IFRS for PE's:
 - UK, Denmark
- Other possible candidates?
 - 12 countries having authorised the use of IFRS in the individual accounts of private entities
 - Strong opposition from other Member States such as France and Germany

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Thank you!

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