



## IFRS for Private Entities (formerly IFRS for SMEs)

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FEE-NRF SME-SMP Congress  
Copenhagen, 4 Sept. 2008



## Why an IFRS for Private Entities?

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### **Global standards needed for private entities:**

- Bank lending decisions
- Banks monitor outstanding loans
- Vendors evaluate finances of buyers
- Credit rating
- Overseas customers
- Foreign venture capital
- Non-management investors
- Development institutions (WB etc)



## Why SME Standards Are Needed

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### **Benefits of global private entity standards go beyond comparability:**

- Improved quality of reporting as compared to existing GAAP
- Ease burden where full IFRSs or full national GAAP are now required
- Access to capital
- Education and training
- Auditing efficiencies

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## IASB Exposure Draft

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### **IASB's proposed IFRS for SMEs:**

- Simplified principles tailored for smaller, private entities
- Self-contained (nearly)
- Based on full IFRSs, which are developed for public capital markets
- Modifications based on:
  - User needs
  - Cost-benefit

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## IASB Exposure Draft

**Organised by topic  
ED is 254 pages, plus:**

- Financial statements
- Disclosure checklist
- Basis for conclusions

**Board vote:** 13 to 1

**Issued:** 15 February 2007

**Translated:** 5 languages

**Comment deadline:  
30 November 2007**

February 2007

SMEs

EXPOSURE DRAFT OF A PROPOSED  
**IFRS for Small and Medium-sized Entities**  
Comments to be received by 1 October 2007



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## Objective of IFRS for Private Entities

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**General purpose financial statements for  
external users, including:**

- Non-manager owners
- Existing and potential lenders, vendors, creditors, customers
- Credit rating agencies

**Understand and compare performance,  
financial position, and cash flows**

**Auditor opinion on fair presentation**

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## Finding an Answer

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### **Self-contained standard:**

- Though some cross-references in ED
- SME must try to find answers in the IFRS for Private Entities:
  - by analogy, and
  - by using pervasive principles in Sec. 2 of IFRS for Private Entities
- May look to full IFRSs if answer cannot be found in IFRS for PEs
  - But, not required



## Simplifications

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### **Five kinds of simplifications based on user needs and cost-benefit tradeoffs:**

1. Some topics in IFRSs omitted if irrelevant to private entities
2. Where IFRS has options, include only simpler option
3. Recognition and measurement simplifications
4. Reduced disclosures
5. Simplified drafting



## Disclosure Simplifications

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**Full IFRSs:** More than 3,000 disclosures

**IFRS for PEs:** Fewer than 400

**Simplifications based on users' needs and cost-benefit:**

**Kept:** Short-term cash flow, liquidity, solvency, measurement uncertainties, accounting policy choices

**Dropped:** Disaggregations, public capital market disclosures



## Since ED Was Issued

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### **Extraordinary outreach effort**

- Presentations at 95 conferences and roundtables in 39 countries
- Including 52 since ED was issued
- Plus 8 published articles

### **Field tests**

- 116 very small companies globally.
- Questionnaire in English, French, Spanish

**162 comment letters**



## Key Issues in Comment Letters

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- 1. Cross references to full IFRSs**
- 2. Do not anticipate changes to full IFRSs**
- 3. Historical cost model should be default**
- 4. Income taxes – taxes payable only?**
- 5. Consolidation – reduce or eliminate**
- 6. Amortise goodwill & other intangibles**
- 7. Fair value – reduce and clarify**



## Key Issues in Comment Letters

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- 8. Pensions – measure at liquidation amount? Actuarial gains/losses**
- 9. Share-based payment – Intrinsic value isn't a simplification**
- 10. Leases – simplify calculations**
- 11. Impairment – Allow value in use**
- 12. Debt-equity classification**
- 13. Further disclosure simplifications**



## Field Test Results

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### **116 small entities, > 20 countries**

- Restated their most recent annual financial statements using IFRS for PEs
- Completed a questionnaire

### **Very few PEs had problems applying the ED**

#### **Main issues (few companies) were:**

- Determining fair values
- Computing deferred taxes
- First time: Equity and cash flow statements



## Early Adoption – South Africa

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### **South African GAAP = full IFRS.**

- Burden for Private Entities. April 2007 law asked SA Institute to develop SME standard.

**Adopted the ED word for word for all unlisted entities that do not use full IFRSs, effective 2007**

#### **CEO of SA Institute wrote:**

**“It is very welcome. The standard in its current form already offers SMEs real relief, and when the final standard comes it will be even better.”**



### Could private companies in the US use the IFRS for Private Entities?

- No reason why not
- No statutory audit requirement in US
- Basis of presentation note would refer to conformity with IFRS for PEs
- If audited, auditor would report on conformity with IFRS for PEs

**AICPA: Designated IASB under Rule 203**  
**Considerable support in US**



### Being developed by IASC Foundation

- One module per Section (ED has 38 sections).

#### To illustrate:

- Section 16 PP&E is 7 A5 pages long
  - Training module is 32 A4 pages, many examples, cases, quiz.
- Finish by mid/late 2009
  - Multiple languages
  - Free of charge!
  - IASCF train the trainers





## Next Steps

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- **Staff analyses of comments and field tests, recommendations for changes to the ED:** Presented to the Board March and April 2008
- **Working Group met:** April 2008
- **Board re-deliberations:** 2Q-4Q 2008
- **Final Standard:** Vote end of 2008
- **Effective:** Whenever adopted locally
- **Training materials:** Mid-late 2009

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## Questions or comments?

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### After the other speakers

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.



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