



An International Financial Reporting Standard for SMEs

FEE SME/SMP Congress

Scheveningen 7 September 2007

Philippe DANJOU

IASB Board member



IASB Exposure Draft

- IASB has issued an Exposure Draft of an IFRS for SMEs.
 - Simplified, self-contained set of accounting principles for SMEs.
 - **Volume reduced by 85%.**
 - Makes accounting requirements more accessible to preparers in both developed and emerging markets.
 - Reduced burden to prepare SME financial statements.



IASB Exposure Draft

▪ IFRS for SMEs:

- Based on full IFRSs, which are developed for public capital markets.
- Modifications based on user needs and cost-benefit.
- Enables investors, lenders, others to compare internationally SMEs' financial performance, financial condition, and cash flows.



IASB Exposure Draft

- **IFRS for SMEs:**
 - Organised by topic.
 - Plus illustrative financial statements, disclosure checklist, and basis for conclusions.
 - Posted on IASB website 15 February 2007.
 - Comment deadline 1 October 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.
- Entity whose securities are publicly traded has public accountability.
 - Need full IFRSs for investor protection.
 - Even if small in size.



IASB Definition of SME

- **No quantified size test:**
 - Each jurisdiction should develop guidelines on which entities it will require/ permit use the IFRS for SMEs.
 - Could include quantified size test.
- **Focus on typical SME with about 50 employees in deciding the content of the IFRS for SMEs.**



IASB Approach

- Ed addresses general purpose financial statements for **external users**, including:
 - **Non-manager owners.**
 - **Existing and potential lenders and creditors.**
 - **Credit rating agencies.**
- Auditor could give opinion on fair presentation (true/fair view) of financial position, results, cash flows.



IASB Approach

- Stand-alone document:
 - SME must try to find answers in the IFRS for SMEs:
 - by analogy, and
 - by using pervasive principles in first section of IFRS for SMEs.
 - SME may look to full IFRSs as a “safety net” – if answer cannot be found in the IFRS for SMEs.
 - But, no mandatory fallback to full IFRSs.



IASB Approach

- Simplifications based on user needs and cost-benefit:
 - **Some topics in IFRSs not included if irrelevant to SME.**
 - **Where IFRS has options, include only simpler option.**
 - **Recognition and measurement simplifications.**
 - **Simplified drafting.**



IASB Approach

- Material not relevant to typical SME omitted, with cross-references to full IFRSs if needed:
 - **Equity-settled share-based payment.**
 - **Determining FV of agricultural assets.**
 - **Extractive industries.**
 - **Interim reporting.**
 - **Lessor finance leases.**
 - **Hyperinflation.**



IASB Approach

- Only simpler of options in full IFRS are included. Other(s) cross-referenced. So, only:
 - Cost for investment property.
 - Cost for PP&E and intangibles.
 - Expense all borrowing costs.
 - Indirect operating cash flows.
 - One method for all grants.
- Jurisdictions could eliminate options.



IASB Approach

Recognition and measurement simplifications, page 1 of 2:

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



IASB Approach

Recognition and measurement simplifications, page 2 of 2

- **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.**



Rejected Simplifications

- Drop the cash flow statement.
- All leases operating.
- All pension plans as defined contribution.
- Completed contract method only.
- Fewer provisions.
- Non-recognition of share-based payment.
- Non-recognition of deferred taxes.
- Cost model for all agriculture.
- No consolidation.
- Derivatives at cost.



Other Issues

- **Suitability for micro-SMEs (tiny)**
 - **Yes, definitely- but not the main target**
 - Full IFRSs are required for micros in about 25 countries and permitted in another 50 countries.
 - **Real issue is whether micro needs to prepare general purpose financial statements that present fairly position, performance, and cash flows.**



The Effort: Due Process

- **Comprehensive due process, including:**
 - Discussion paper (June 2004).
 - Recognition and measurement (R&M) questionnaire (April 2005).
 - Public roundtables on R&M (Oct. 2005).
 - Working Group (35 members).
 - Deliberations at over 30 Board meetings.
 - Roundtables on ED (ongoing).



Maintenance

- **Maintaining the IFRS for SMEs:**
 - Update the IFRS for SMEs every 2 years.
 - Omnibus Exposure Draft.



Exposure Draft

- **Board voted to issue the ED: 13 to 1**
 - Comment deadline 1 October 2007.
 - French, Spanish, German translations – Spring 2007.
- **ED about 250 pages**
- **Implementation Guidance**
 - Model financial statements
 - Disclosure checklist
- **Basis for Conclusions**



Exposure Draft

- Invitation to comment at front of the ED raises 11 questions.
- Of course, comments are invited on any issues in the ED.

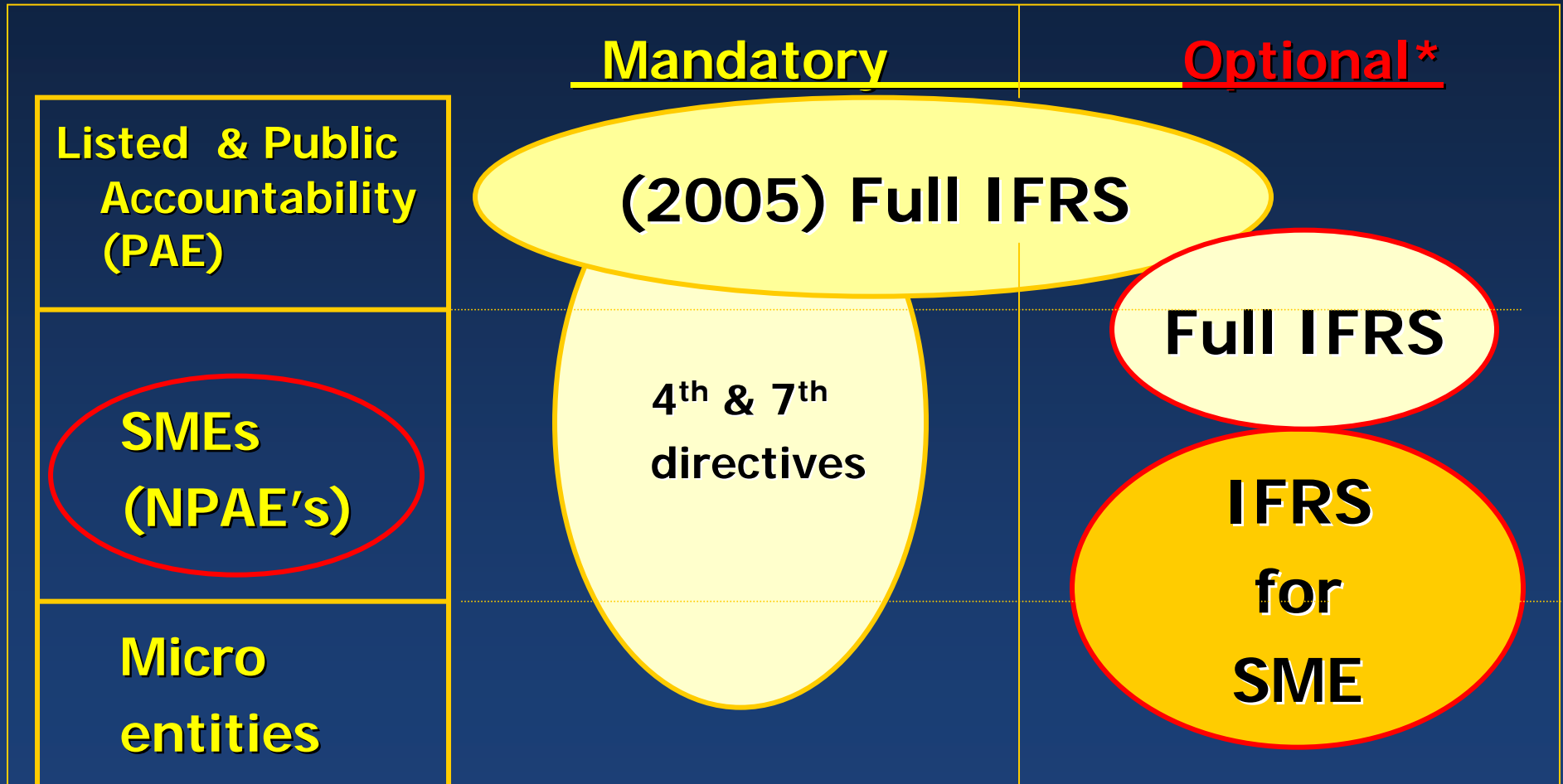


Exposure Draft

- **Next steps:**
 - Continued roundtables with SMEs, small audit firms, and national standard setters.
 - Field tests and/or visits to SMEs.
 - Final Standard – 1H 2008.
 - Effective – whenever adopted locally.



The place of IFRS for SME in the European context



*Options in EU Regulation 1606/2002

SME not covered by IFRS Regulation



Questions? Comments?

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

