2015

International Financial Reporting Standard® (IFRS®) for Small and Medium-sized Entities (SMEs)

IFRS for SMEs°

This official pronouncement incorporates 2015 Amendments to the IFRS for SMEs (effective 1 January 2017 with early application permitted).



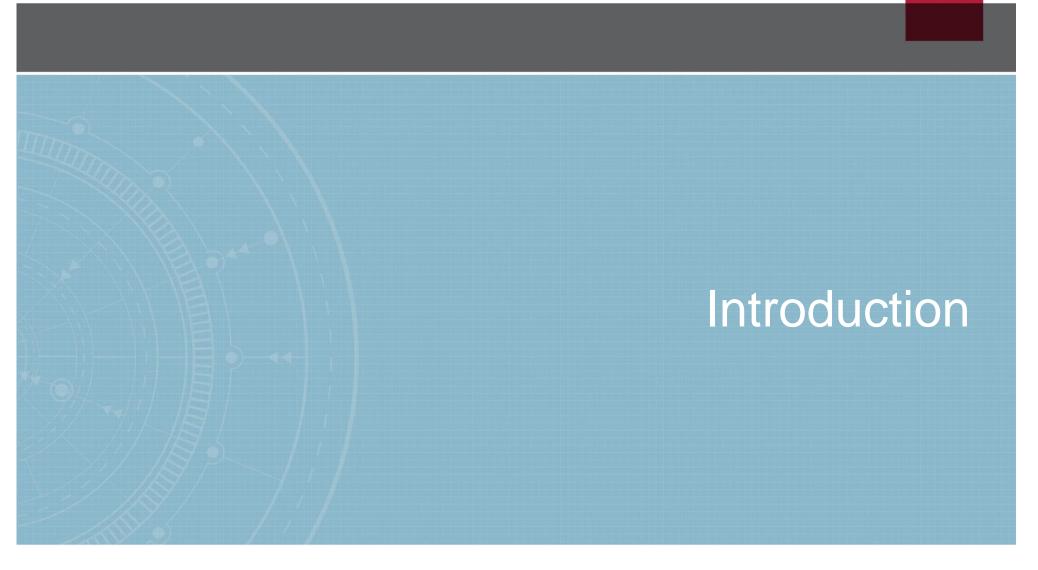
The IFRS for SMEs Overview

Tbilisi, May 2018

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IASB Board Member







Goal of IASB/IFRS Foundation

- To provide the world's integrating capital markets with a common language for financial reporting
- In fulfilling this objective, take account of the needs of:
 - Small and medium-sized entities; and
 - Emerging economies.



Use of IASB's standards

- Full IFRSs
 - Required or permitted for all or some listed companies in 139 jurisdictions (of 150 analysed)*
- The IFRS for SMEs
 - Issued in July 2009
 - 85 jurisdictions already permit or require its use and
 - It is under consideration in a further 11 countries

* from an analysis of jurisdictional profiles completed by the IFRS Foundation, correct at 31 March 2017



Overview of the IFRS for SMEs



The IFRS for SMEs

Good Financial Reporting Made Simple.

- +-250 pages
- Simplified IFRSs, but built on an IFRS foundation
- Completely stand-alone
- Designed specifically for SMEs
- Internationally recognised
- Final standard issued July 2009, first amendments published May 2015



Differences from Full IFRS



Eligibility

- Any entity that does not have public accountability...
 - securities not publicly traded
 - not a financial institution
- ... and is <u>required or chooses</u> to produce General Purpose Financial Statements (GPFS)



Who is the Standard aimed at?

- Entities that are <u>not publically accountable</u>
- Entities which <u>must produce GPFS</u>
- Ultimately choice is a public interest issue
 - Decided by parliaments and regulators, not by IASB
 - There is a public benefit in good financial information about companies



How does it differ from full IFRSs?

- Tailored for SMEs
 - User needs for information about cash flows, liquidity, and solvency
 - Costs and SME capabilities
- Much smaller
 - 250 pages vs 3,000 in full IFRSs
- Organised by topic
- Simplifications from full IFRSs



How did we simplify?

- Some topics in IFRSs omitted if irrelevant to private entities
- Where IFRSs have options, generally include only simpler option
- Recognition and measurement simplifications
- Reduced disclosures
- Simplified drafting



Disclosure simplifications

- Big reduction in disclosures:
 - Full IFRSs more than 3,000 items in the disclosure checklist
 - IFRS for SMEs roughly 300 disclosures
- <u>Kept</u>: Disclosures about short-term cash flow, liquidity, solvency, measurement uncertainties, accounting policy choices
- <u>Dropped</u>: Disaggregations, public capital market disclosures



Why would an SME want to adopt it?

- Improved access to capital
 - This is the #1 issue with SMEs
- Improved comparability
- Improved quality of reporting as compared to existing national GAAP
 - World Bank ROSC reports
- Less of a burden for entities in jurisdictions where full IFRSs or full national GAAP are now required.



Why would an SME want to adopt it?

- Other benefits:
 - Implementation Q&As SME Implementation Group
 - Special newsletter for SMEs and auditors using the IFRS for SMEs
 - Textbooks available
 - Software available
 - IASB training materials
 - Commercial training programmes



Can SMEs choose to adopt it?

- Depends on local law
 - In some countries, required for qualifying entities
 - USA yes. IASB is now the second designated standard setter (along with FASB) in the AICPA code of ethics.
 - Other countries, adoption is "automatic" (law already requires "IFRS")
 - In some countries, however, currently only full IFRSs and local GAAP can be used. Need to change local law or regulations to permit adoption of the *IFRS for SMEs*.

What would the audit report say?

Something like:

"Fairly presents financial position, results of operations, and cash flows in conformity with the International Financial Reporting Standards for Small and Medium-sized Entities"



Implementation support *IASB*

Translations

- Completed: Albanian, Arabic, Armenian, Bosnian, Simplified Chinese, Croatian, Czech, French, Italian, Japanese, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish, Georgian
- In process: Ukrainian



SME implementation Group (SMEIG)

Objective

 Support international adoption of the IFRS for SMEs and to monitor its implementation

Main responsibilities

- Develop non-mandatory guidance on IFRS for SMEs in the form of Q&As
- Make recommendations to the IASB on the need to amend the IFRS for SMEs



Membership

- SMEIG consists of a maximum of 30 members
 - Appointed for up to 2 terms of 3 years each
 - Broad geographical and functional spread
- 3 vacancies, in case suitable candidates are identified at a later date
- Staggered appointment dates to facilitate continuity
- 16 members eligible for re-appointment in June 2017



Q&As

- 7 Q&As developed to prior to the issue for the 2015 amendments
- Q&As developed where considered during the review process, and adopted into the revised standard
- Consequently, the Q&As were withdrawn as no longer relevant
- SMEIG now considering several new topics which have been raised



Future reviews of the Standard



Future reviews of the Standard Comprehensive review

Proposal

- To start two years after effective date of amendments from the last comprehensive review
- Includes Request for Information and exposure draft

Probable effect in current cycle

- Review would start January 2019
- Include:
 - Consequences of 2017 changes
 - New application issues
 - New IFRSs
- Effective 2022/2023



Future reviews of the Standard Interim review: Maintenance

Proposal

- To consider new and revised IFRS not yet incorporated
- Consider any urgent changes
- Includes exposure draft (but not RFI)

Effect in current cycle

- Considered by the Board in late 2016
- Concluded that there was no requirement for an interim review



Future reviews of the Standard Stable Platform, but responsive

We consider:

A 'Mandatory' change every 5 to 6 years,

Together with

An Interim change in between

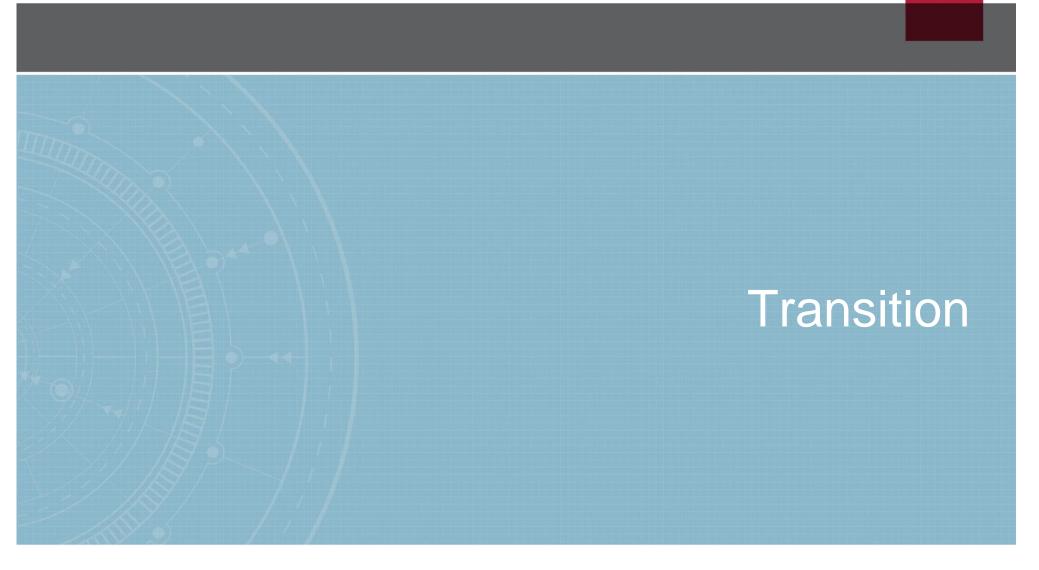
With

Updates no more frequently than every 3 years

<u>Means</u>

Stable platform that is still responsive to a changing environment







Scope

First set of financial statements in which the entity makes an "explicit and unreserved statement of compliance with the IFRS for SMEs":

 "...in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities..."



Types of first-time adoption

- Can be switching from:
 - National GAAP
 - Full IFRSs
 - Or maybe never published General Purpose Financial Statements in the past
- Date of transition is beginning of earliest period presented



Two key steps

- Select accounting policies based on IFRS for SMEs at end of reporting period of First Time Adoption:
 - Assume 31 December 2012 for this PowerPoint presentation
- Prepare at least two years financial statements using those policies
 - Required: Financial statements for 2012 and 2011 using IFRS for SMEs
 - Need not present balance sheet at 1/1/11
 - Optional: Present IFRS for SMEs financial statements earlier than 2011



Two key steps

- Important simplification for SMEs:
 - If it is impracticable to restate one or more prior period items, IFRS for SMEs allows an exception, with disclosure of the resulting non-comparability's



Selecting initial policies

- Criteria for selecting accounting policies [para 10.4]:
 - Relevance
 - Reliability
- Many accounting policy decisions depend on circumstances – most are not "free choice"
- IFRS for SMEs allows some accounting policy choices that do not depend on circumstances:
 - First-time adopters must choose
 - Once the choice is made, any change must follow
 Section 10



Adjustments required

- First time adoption of IFRS for SMEs potentially involves adjustments from national GAAP or full IFRSs to IFRS for SMEs:
 - Derecognise some old assets and liabilities
 - Recognise some new assets and liabilities
 - Reclassifications
 - Measurement changes



Adjustments required Measurement

- Measurement principles in IFRS for SMEs must be applied to measure all recognised assets and liabilities at date of FTA
- More fair value measurements
- More present value



Adjustments required Measurement

Adjustments to move from previous GAAP to IFRS for SMEs at FTA:

 Should be recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of the opening IFRS for SMEs balance sheet.



Exceptions to restatement

There are some exceptions to the requirement to restate comparative data using IFRS for SMEs:

- Some exceptions are optional
- Some exceptions are mandatory



Optional exceptions Business Combinations

- May keep old GAAP. Need not restate:
 - Initial measurement of goodwill
 - Goodwill written off against equity
 - Carrying amounts of acquired assets and liabilities
- However, entity may elect to restate old combinations back to any starting date
- Must test goodwill for impairment at opening balance sheet date



Optional exceptions Property, plant and equipment

- May measure at FV at 1/1/2011. This becomes 'deemed cost' going forward
- Also, revaluations under old GAAP can be 'deemed cost' at 1/1/2011
- In both cases, starting 1/1/2011 entity uses costdepreciation-impairment model going forward



Optional exceptions Cumulative foreign currency trans. adjust.

- Any amount deferred in equity under old GAAP can be eliminated (adjust retained earnings) at 1 Jan 2011 – fresh start
- If eliminated, gain or loss on future disposal of the foreign operation reflects only translation adjustments arising after 1 Jan 2011



Optional exceptions Other

- 'Split accounting' for convertible debt redeemed before 1 Jan 2011
 - Need not separate out equity component
- Need not apply IFRS for SMEs to share-based payments issued before 1 Jan 2011
- Full-cost oil and gas assets
 - Retrospective application of IFRS for SMEs for oil and gas assets is not required. Carrying amount under old GAAP = 'deemed cost'



Optional exceptions Other

- Determining whether an arrangement contains a lease
 - Can base determination on facts at time of FTA rather than when the arrangement was entered into
- In general Sec 3 requires comparative information for all amounts in financial statements and in the notes
 - 35.11 has an exemption if it is impracticable to make the comparative disclosure at FTA
 - But the omission must be disclosed



Mandatory exceptions

- Derecognition of financial assets / liabilities:
 - Do not 'undo' past derecognitions based on new information
- Hedge accounting
 - No new designation of hedge accounting for hedges prior to 1 Jan 2011 if not treated as hedges under old GAAP
- Estimates
 - Do not change previous estimates unless there was an error



Mandatory exceptions

- Discontinued operations:
 - Do not change what was reported under old GAAP
- Measuring non-controlling interests (NCI)
 - The allocation of P&L and Total Comprehensive Income between NCI and owners of the parent must be applied prospectively from date of transition to IFRS for SMEs
 - Do not restate earlier periods



Impact of adoption

What's the expected impact on income and equity if SME switches to IFRS for SMEs?

- Depends on what its existing GAAP is
- Is it now close to IFRSs? Miles away?
- Are things like deferred taxes, pensions, provisions, impairments accrued?
- Capital leases? Derivatives?
- Consolidation? Cash flow statement?
- And quality of implementation.
- Depends on which options it chooses

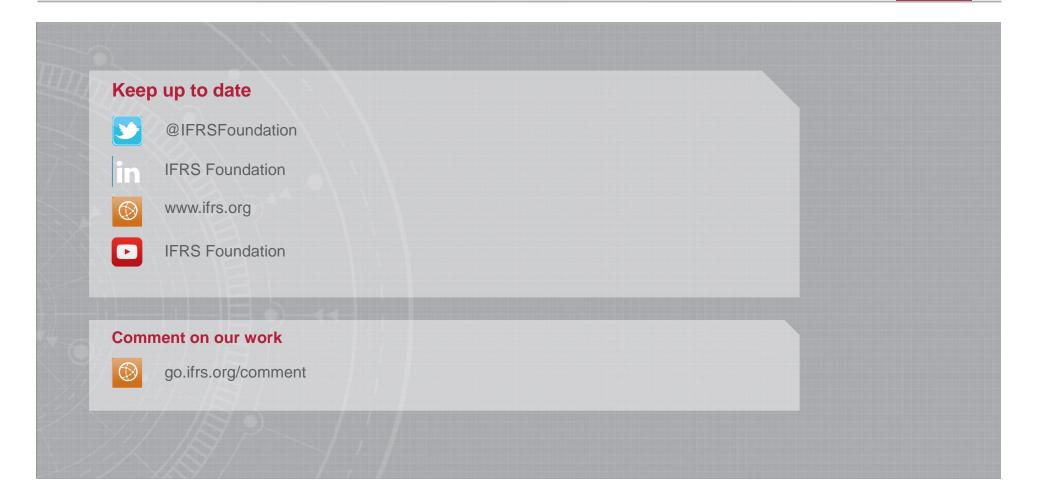


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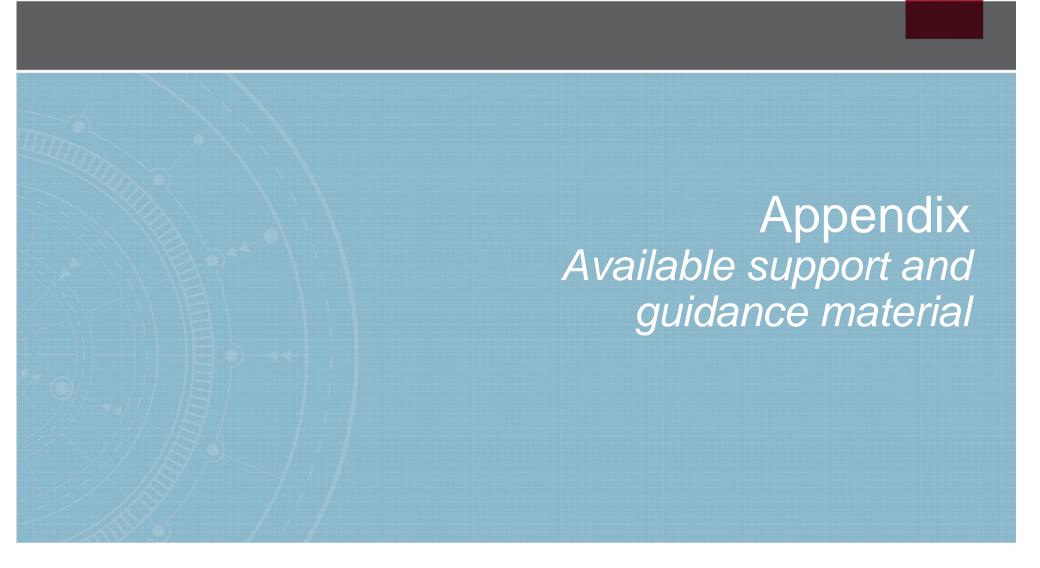




Contact us









Free supporting materials

Training material free for you to use

- Developed by IFRS Foundation staff
- Multi-level peer review but not IASB approved
- 35 standalone modules (1 for each section of the IFRS for SMEs)
- English, Spanish, several other languages
- Training material = +2,000 A4 pages
- Free to download
- Self study



Free supporting materials continued

Each module includes

- Explanation of the requirements
 - Full text of the requirements
 - 'How to' numerical examples
 - Other explanations
- Discussion of important judgements
- Comparison with full IFRSs
- Test your knowledge multiple choice quiz
- Apply your knowledge case studies



SME Update newsletter

- Free subscription delivered by email
 - 15,000 subscribers
- Topics typically covered:
 - New adoptions and translations
 - SMEIG activity
 - All draft and final Q&As
 - Training materials
 - Train the trainers workshops
 - Links to resources



Executive briefing booklet

- Written for lenders, creditors, owner-managers and others who use SME financial statements
 - 8 pages
 - What is the IFRS for SMEs? Who is it aimed at?
 Who uses it? Differences with full IFRSs
 - Revised 2012
 - Free download



Guidance for Micro SMEs

- IASB staff have developed guidance to help microsized SMEs apply IFRS for SMEs
 - Tiny companies
 - Not a new standard
 - Extract relevant principles from IFRS for SMEs
 - SMEIG review, Board review
 - Guidance booklet contains cross-references to IFRS for SMEs for matters omitted in micro booklet



Guidance for Micro SMEs Continued

- Guidance booklet not been updated for the 2015 Amendments to IFRS for SMEs
- IASB staff looking at an electronic equivalent, which would permit user flexibility to tailor to own requirements



IFRS for SMEs on the IASB website

- Download standard and translations
- Comprehensive review
- SME Implementation Group
- Q&As
- Training material
- Training workshops and PPTs
- Update newsletter
- Presentations, webcasts, resources
- Project history

go.ifrs.org/SMEsHome



Free downloads from IASB

- IFRS for SMEs (full standard, translations)
- Training materials (35 modules coming)
- Board and staff presentations
- Update newsletter
- Executive briefing booklet

