The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

The IFRS for SMEs Implementation Challenges

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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:
    • Listed companies in 123 jurisdictions
    • Unlisted in 98 jurisdictions

• The IFRS for SMEs
  • Issued in July 2009
  • Over 80 jurisdictions already permit or require its use or plan to do so in the next 3 years
The *IFRS for SMEs*

Good Financial Reporting Made Simple.

- 230 pages
- Simplified IFRSs, but built on an IFRS basis
- Completely stand-alone
- Designed specifically for SMEs
- Internationally recognised
- Final standard issued 9 July 2009
Who will be eligible to use it?

- Any entity that does not have public accountability...
  - securities not publicly traded
  - not a financial institution
- ... and is required or chooses to produce General Purpose Financial Statements (GPFS)
Who is the standard aimed at?

- Entities which must produce GPFS
- 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
Is it completely stand-alone?

• The only ‘fallback’ option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs
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
  • 230 pages vs 3,000 in full IFRSs
• Organised by topic
• Simplifications from full IFRSs
How was it simplified?

• Some topics in IFRSs omitted if irrelevant to private entities
• Where IFRSs have options, 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
• Kept: Disclosures about short-term cash flow, liquidity, solvency, measurement uncertainties, accounting policy choices
• Dropped: 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
• 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 – new IASB SME Implementation Group
  - Special newsletter for SMEs and auditors using the *IFRS for SMEs*
  - Textbooks available
  - Software available
  - IASB training materials (already posted)
  - Commercial training programmes
Can SMEs choose to adopt it?

- Depends on local law
  - 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*. 

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Adoptions of the *IFRS for SMEs*

• Over 80 jurisdictions have either adopted the *IFRS for SMEs* or stated a plan to adopt it within the next three years
Adoption – some examples

- **Africa**: South Africa, Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, Tanzania, Swaziland, Uganda, Zambia, Zimbabwe

- **Asia**: Bangladesh, Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Tonga

- **Eurasia**: Azerbaijan, Kyrgyzstan, Moldova, Turkey

- **Central America**: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
Adoption – some examples

• Caribbean: Antigua & Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad

• South America: Argentina, Bolivia, Brazil, Chile, Ecuador, Guyana, Peru, Suriname, Venezuela

• Middle East: Jordan, Lebanon, Palestine, Qatar


• North America: Available for use in United States, Canada (limited use so far)
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, Estonian, French, Hebrew, Italian, Japanese, Kazakh, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish

• **In process**: German, Ukrainian

• **Proposed or in discussion**: Georgian
Implementation support
IASB continued

• Free training workshops (regional, 3 days)

• To date: In Malaysia, India, Tanzania, Egypt, Gambia, Belarus, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Argentina, Myanmar, Dubai, Barbados, Bosnia, Kenya, Chile, Cameroon, Bangladesh, Ukraine, Mongolia, Abu Dhabi
Free training workshops (continued)

- 1,100 slides in 20 PowerPoint presentations
- Free to download
- Arabic, French, Portuguese, Russian, Spanish, Turkish
- The IFRS Foundation encourages others to use and adapt their PowerPoints in training programmes they organise
SME Implementation Group (SMEIG)

Two 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*
7 Q&As so far – topics

• Use of *IFRS for SMEs* in parent’s separate statements
• Meaning of ‘traded in a public market’
• Entities that typically have public accountability
• Fallback to IFRS 9
• Application of ‘undue cost or effort’
• Fallback to full IFRSs
• Recycling of foreign exchange differences

Q&As are available in English and Spanish
Comprehensive review

• Initial comprehensive review: After 2 years implementation experience
  • Fix errors and omissions, lack of clarity, and other implementation problems
  • Also consider need for improvements based on recent IFRSs and amendments
• Thereafter: Once every three years (approximately) omnibus exposure draft of updates
Comprehensive review continued

• Request for Information issued June 2012
  • Comments were due 30 November 2012
  • Included questions about individual technical issues plus general questions
• Responses help IASB decide whether there is a need for any amendments and which ones
• ED issued October 2013 – responses by March 3, 2014
• Revisions (if any) early 2014, effective 2015


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Comprehensive review continued

- The Request for Information included
  - 19 questions on specific accounting issues
  - 5 general questions
  - Plus respondents can add their own issues
- Examples of general questions
  - Is there further need for Q&As
  - Whether to incorporate existing Q&As into the IFRS for SMEs
Comprehensive review continued

• Examples of specific questions
  • Use by small publicly traded entities
  • Use by small financial institutions
  • Use by not-for-profit entities
  • Fair value measurement guidance
  • Revaluation of PP&E
  • Capitalisation of borrowing costs
  • Recognition of deferred income taxes
Free self-study training materials

Training material free for you to use

• Developed by IFRS Foundation staff
• Multi-level peer review but not IASB approved
• 35 stand alone 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

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Free self-study training materials \textit{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
Free monthly 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
  • Staff commentaries
  • 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 booklet on micro SMEs

- IASB staff are developing guidance to help micro-sized SMEs apply *IFRS for SMEs*
  - Tiny companies (eg 1-10 employees)
  - Not a new standard
  - Extract relevant principles from *IFRS for SMEs*
  - SMEIG review, Board review
  - Guidance booklet will contain cross-references to *IFRS for SMEs* for matters omitted in micro booklet
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)
  [http://go.ifrs.org/IFRSforSMEs](http://go.ifrs.org/IFRSforSMEs)

• Training materials (35 modules)
  [http://go.ifrs.org/smetraining](http://go.ifrs.org/smetraining)

• PowerPoint training modules (20 PPTs)
  [http://go.ifrs.org/trainingppts](http://go.ifrs.org/trainingppts)

• Board and staff presentations
  [http://go.ifrs.org/presentations](http://go.ifrs.org/presentations)

• Update newsletter
  [http://go.ifrs.org/smeupdate](http://go.ifrs.org/smeupdate)

• Executive briefing booklet
  [http://go.ifrs.org/SMEguide](http://go.ifrs.org/SMEguide)
Section by Section Highlights
Section by section highlights

The next 50 or so slides highlight the requirements of the 35 sections of the *IFRS for SMEs* and changes from the ED

- These are selective highlights
- Not complete summaries
- Most sections will be covered in more detail throughout this workshop
Section 1
Small and medium entities

• Defines SME as used by IASB:
  • not publicly accountable, and
  • publish general purpose financial statements for external users

• Listed companies may not use, no matter how small
Section 2
Concepts and principles

• Objective: Information about financial position, performance, cash flows
  • Also shows results of stewardship of management over resources
• Qualitative characteristics: Relevance, reliability, etc
• Definitions: Asset, liability, equity
• Definitions: Income and expenses
Section 2
Concepts and principles continued

• Basic recognition concepts
• Basic measurement concepts
• Pervasive recognition and measurement principles
• Source of guidance if a specific issue is not addressed in the IFRS for SMEs
• Concepts of profit or loss and total comprehensive income
• Principles for offsetting
Section 3
Financial statement presentation

• **Fair presentation**: presumed to result if *IFRS for SMEs* is followed (maybe need for supplemental disclosures)

• **Full compliance**: State compliance with *IFRS for SMEs* only if the financial statements comply in full

• **Comparatives**: At least one year comparative financial statements and note data
Complete set of financial statements:

- Statement of financial position
- Either single statement of comprehensive income, or two statements: Income statement and statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes
Section 3
Financial statement presentation continued

Single Statement of Comprehensive Income:
• Revenue
• Expenses:
  – Finance costs
  – P&L from associates / JVs Tax expense
  – Discontinued operations
• Profit or loss
• Items of Other Comprehensive Income
• Total comprehensive income

Two statements:

Income Statement:
• Bottom line is profit or loss (as at left)

Statement of Comprehensive Income:
• Begins with profit or loss
• Items of OCI
• Bottom line is Total Comprehensive Income
Section 3
Financial statement presentation continued

• Can present only an income statement (no statement of comprehensive income) if no items of other comprehensive income (OCI)

• The only OCI items under *IFRS for SMEs* are:
  • Some foreign exchange gains and losses
  • Some changes in fair values of hedging instruments
  • Some actuarial gains and losses
Section 4
Statement of financial position

• May still be called “balance sheet”
• Current/non-current split is not required if entity concludes liquidity approach is better
• Some minimum line items
• And some items that may be in the statement or in the notes
• But sequencing, format, and titles are not mandated
Section 5
Statement of Comprehensive Income

- One-statement or two-statement approach
- Must segregate discontinued operations
- Must present “profit or loss” subtotal if entity has items of other comprehensive income
Section 5
Statement of Comprehensive Income continued

• If an SME presents consolidated financial statements:
  • Bottom line (Profit or Loss in the income statement and Total Comprehensive Income in the statement of comprehensive income) is before allocating those amounts to non-controlling interest and owners of the parent.
Section 6
Statement of Changes in Equity

• Shows all changes to equity including
  • total comprehensive income
  • owners investments and withdrawals
  • dividends
  • treasury share transactions

• Can omit if no owner investments or withdrawals other than dividends
Section 7
Statement of cash flows

• All SMEs must present a statement of cash flows
• Option to use the
  • indirect method, or
  • direct method
• to present operating cash flows
Section 8

Notes

• Disclose basis of preparation (ie IFRS for SMEs)
• Summary of significant accounting policies
• Information about judgements
• Information about key sources of estimation uncertainty
• Supporting information for items in financial statements
• Other disclosures
Section 9
Consolidation

• Consolidation is required when parent-subsidiary relationship except:
  • Sub was acquired with intent to dispose within one year
  • Parent itself is a sub and its parent or ultimate parent uses full IFRSs or IFRS for SMEs

• Basis of consolidation: control
  • Consolidate all controlled SPEs
Section 10
Accounting policies

• If *IFRS for SMEs* addresses an issue, must follow *IFRS for SMEs*

• If *IFRS for SMEs* does not address an issue:
  • Choose policy that results in most relevant and reliable information
  • Try to analogue from requirements in the *IFRS for SMEs*
  • Or use concepts/pervasive principles in Sec 2
  • May look to guidance in full IFRSs — but not required
Section 10
Accounting policies continued

• Change in accounting policy:
  • If mandated, follow the transition guidance as mandated
  • If voluntary, retrospective
• Change in accounting estimate: prospective
• Correction of prior period error: restate prior periods if practicable
Section 11

Basic financial instruments

• Section 11 is an amortised historical cost model with one exception:
  • Equity investments with quoted price or readily determinable fair value are at fair value through P&L.

• Option to follow IAS 39 instead of sections 11 and 12
  • Even if IAS 39 is followed, make Section 11/12 disclosures (not IFRS 7 disclosures)
Section 11
Basic financial instruments continued

• Scope of Sec 11 includes:
  • Cash
  • Demand and fixed deposits
  • Commercial paper and bills
  • Accounts and notes receivable and payable
  • Debt instruments where returns to the holder are fixed or referenced to an observable rate
  • Investments in non-convertible and non-puttable ordinary and preference shares
  • Most commitments to receive a loan
Section 11

Basic financial instruments continued

- Amortised cost – effective interest method
- Must test all amortised cost instruments for impairment
- Reversal of impairment
- Guidance on fair value and effective interest method
- Derecognition

Criteria for basic instruments similar to IFRS 9.
No HTM or AFS – same as IFRS 9.
Section 12
Complex financial instruments

- Financial instruments not covered by Section 11 are at fair value through profit or loss. This includes:
  - Investments in convertible and puttable ordinary and preference shares
  - Options, forwards, swaps, and other derivatives
  - Financial assets that would otherwise be in Section 11 but that have “exotic” provisions that could cause gain/loss to the holder or issuer
- Hedge accounting
Section 13

Inventories

• At cost, which may be
  • specific identification for specialised items
  • FIFO or weighted average for others
• Impairment (write down to estimated selling price less costs to complete and sell)
Section 14
Associates

• Option to use:
• Cost model (except if published quotation then must use Fair Value through P&L)
• Equity method
• Fair value through profit or loss (if impracticable, then use cost)

Cost and FV models are not allowed by IAS 28.
Section 15
Joint ventures

• Option to use:
  • Cost model (except if published quotation then must use Fair Value through P&L)
  • Equity method
  • Fair value through profit or loss (if impracticable, then use cost)
• Proportionate consolidation is prohibited

Cost and FV models are not allowed by IAS 31. Proportionate consol. is different in IFRS 11.
Section 16
Investment property

• If fair value can be measured reliably without undue cost or effort, use Fair Value through P&L
• Otherwise, must treat investment property as property, plant and equipment using Section 17

IAS 40 is pure accounting policy choice – either depreciation model or fair value through P&L.
Section 17
Property, plant & equipment

- Historical cost – depreciation – impairment model only. No revaluation model.

IAS 16 allows reval of PP&E through OCI

- Section 17 applies to investment property if fair value cannot be measured reliably
- Section 17 applies to property held for sale
- Holding for sale is an impairment indicator

IFRS 5 requires separate treatment for non-current assets held for sale
• Component depreciation only if major parts of an item of PP&E have “significantly different patterns of consumption of economic benefits”

• Review useful life, residual value, depreciation rate only if there is a significant change in the asset or how it is used

IAS 16 requires annual review

• Impairment testing and reversal – follow Section 27
Section 18
Intangibles other than goodwill

- No recognition of internally generated intangible assets

IAS 38 requires capitalisation of development costs incurred after a determination of technical and commercial viability
Section 18

Intangibles other than goodwill continued

- Amortise intangibles that are purchased separately, acquired in a business combination, acquired by grant, and acquired by exchange of other assets
- Amortise over useful life. If unable to estimate useful life, then use 10 years
- Impairment testing – follow Section 27
Section 19
Business combinations & goodwill

• Acquisition method
• Amortise goodwill. If unable to estimate useful life, then use 10 years.
• Impairment testing and reversal – follow Section 27
• Negative goodwill – first reassess original accounting. If that is ok, then immediate credit to P&L

Goodwill amortisation is prohibited by IAS 38.
Section 20  
Leases

• Finance and operating lease classification similar to IAS 17

• Measure finance leases at lower of FV of interest in leased property and present value of minimum lease payments

• For operating leases, do not force straight-line expense recognition if lease payments are structured to compensate lessor for general inflation

IAS 17 requires straight-line recognition
Section 21

Provisions & contingencies

- Accrue if an obligation arising from a past event and amount can be estimated reliably
- Disclose (no accrual) contingent liability
- Measure at best estimate
  - Large population – weighted average calculation
  - Single obligation – adjusted most likely outcome
- Includes an appendix of examples
Guidance on classifying an instrument as liability or equity:

- Instrument is a liability if the issuer could be required to pay cash
- However, if puttable only on liquidation or death or retirement of owner, then it is equity
Section 22
Liabilities and equity continued

• Section 22 also covers:
  • original issuance of shares and other equity instruments
  • sales of options, rights and warrants
  • stock dividends and stock splits

These topics are not addressed in full IFRSs
Section 23
Revenue

• Same principles as IAS 18 and IAS 11
  • Goods: Revenue recognised when risks and rewards are transferred, seller has no continuing involvement, measurable
  • Services and construction contracts: Recognised by percentage of completion
• Principle for measurement is fair value of consideration received or receivable
Section 24
Government grants

• All measured at the fair value of the asset received or receivable

• Recognition as income:
  • Immediately if no performance conditions are imposed
  • If conditions, recognise when conditions are fulfilled

IAS 20 allows a wide range of methods of accounting for government grants.
Section 25
Borrowing costs

- All charged to expense when incurred
- No capitalisation

IAS 23 requires capitalisation of borrowing costs relating to an asset during construction.
Section 26
Share-based payment

• Must recognise
• Measure at fair value if practicable
• If it is impracticable to determine the fair value of the option or other instrument granted, the entity’s directors should use their judgement to apply the most appropriate valuation method

IFRS 2 has an intrinsic value “simplification”.

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Section 27

Impairment of assets

- **Inventories** - write down selling price less costs to complete and sell, if below carrying amount
- **Other assets** - write down to recoverable amount, if below carrying amount
- **Recoverable amount** is the greater of fair value less costs to sell and value in use
Section 28
Employee benefits

• For defined benefit plans, use projected unit credit calculation only if entity is able without undue cost or effort. Otherwise, can simplify:
  • Ignore estimated future salary increases
  • Ignore future service of current employees (assume closure of plan)
  • Ignore possible future in-service mortality

IAS 19 was recently amended to be consistent with the above.
Section 29

**Income tax**

- Recognise deferred taxes if the tax basis of an asset or liability is different from its carrying amount.
- Tax basis assumes recovery by sale. (If zero capital gains tax, no deferred tax)
- No deferred tax on an asset or liability if recovery or settlement of carrying amount is not expected to affect taxable profit.
Section 29

Income tax continued

• Exception: No deferred tax on unremitted earnings of foreign subsidiaries and JVs

• Recognise deferred tax assets in full, with valuation allowance

• Criterion is that realisation is probable (more likely than not)

• Deferred taxes all non-current

Section 29 model is same as IASB/FASB March 2009 exposure draft on Income Tax.
Section 30
Foreign currency translation

• Functional currency approach similar to that in IAS 21

• No recycling of gains or losses on net investment in a foreign entity that are initially recognised in other comprehensive income
Section 31
Hyperinflation

• An entity must prepare general price-level adjusted financial statements when its functional currency is hyperinflationary
  • Approximately greater than 100% over three years
Section 32  
Events after End of Reporting Period

- Adjust financial statements for events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period
- Do not adjust for events or conditions that arose after the end of the reporting period
- Dividends declared after end of period are not a liability
Section 33

Related party disclosures

• Government departments and agencies are not related parties simply by virtue of their normal dealings with an entity

• Disclosure of key management personnel compensation only as one number in total

• Fewer disclosures about transactions
Section 34
Specialised activities

• Agriculture – use historical cost model unless fair value is readily determinable without undue cost or effort

IAS 41 requires FVTPL for all biological assets and agricultural produce.

• Oil and gas and mining – not required to charge exploration costs to expense
Section 35
First-time adoption

- Prepare current year and one prior year’s financial statements using the *IFRS for SMEs*
- But there are many exemptions for restating specific items
- And a general exemption for impracticability
No sections covering these topics

• Segment reporting
• Earnings per share
• Interim reporting
• Assets held for sale
Thank you
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