

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).

PART A  
the requirements



# The *IFRS for SMEs* Overview

Tbilisi, May 2018

Darrel Scott

*IASB Board Member*



# Introduction

# Goal of IASB/IFRS Foundation

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- 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.

- 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*

## 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

- 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 that are not publically accountable
- Entities which must produce GPFS
- 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?

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- 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?

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- 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

- 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
  - 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?

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- 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?

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- 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”



### 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

## 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

- **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

- 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*

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### **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  
*Means*
- Stable platform that is still responsive to a changing environment



# Transition

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

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- 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

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- 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

- 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

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- 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*

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- 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*

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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

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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*

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- 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 cost-depreciation-impairment model going forward

# Optional exceptions

## *Cumulative foreign currency trans. adjust.*

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- 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*

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- 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

- 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

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- 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

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

# Thank you

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## Comment on our work



[go.ifrs.org/comment](http://go.ifrs.org/comment)



# Appendix

## *Available support and guidance material*

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

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 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



- 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

- IASB staff have developed guidance to help micro-sized 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 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

- 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](http://go.ifrs.org/SMEsHome)

# Free downloads from IASB

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