

# Which Standards for non-PIEs? International Good Practice on Adapting and Adopting ‘IFRS for SMEs’

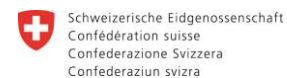
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26-27 April, Kiev, Ukraine

A&ACoP “Keeping Financial Reporting Relevant: Focus on Micro, Small and Medium Enterprises”



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- » The EU adopted IFRS for all 'listed' entities in 2005.
- » IFRS has been adopted or is allowed for listed companies and other public interest entities (PIEs) in 133 jurisdictions world wide.
- » The IASB issued IFRS for SMEs in 2009 and revised it in 2015. 80 jurisdictions have adopted or allowed IFR for SMEs for non-PIEs, including Armenia, Azerbaijan, Georgia and Ukraine.
- » Albania developed 14 national accounting standards based on *IFRS for SMEs* (2009) and each standard contains an annex that shows how the content of the respective standard corresponds to the relevant sections of the *IFRS for SMEs*.
- » The biggest implementers of IFRS for SMEs in practice are Brazil and South Africa.
- » The only EU jurisdictions that have adopted IFRS for SMEs (with amendments) are Ireland and the UK. Why?

## Compatibility of IFRS for SMEs and EU Accounting Legislation

The EC asked EFRAG to consider IFRS for SMEs in 2009 for compatibility with the then EU accounting legislation (4<sup>th</sup> and 7<sup>th</sup> Company Law Directives).

EFRAG concluded IFRS was generally compliant with EU Law, with only the following 6 inconsistencies noted:

- 1. The prohibition to present or describe any items of income and expense as “extraordinary items” in the statement of comprehensive income or in the notes*
- 2. The requirement to measure financial instruments within the scope of section 12 of the IFRS for SMEs (non-basic financial instruments) at fair value*



## Compatibility of IFRS for SMEs and EU Accounting Legislation

3. *The requirement to presume the useful life of goodwill to be ten years if an entity is unable to make a reliable estimate of the useful life*
4. *The requirement to recognise immediately in profit or loss any negative goodwill*
5. *The prohibition to reverse an impairment loss recognised for goodwill*
6. *The requirement to present the amount receivable from equity instruments issued before the entity receives the cash or other resources, as an offset to equity and not as an asset*

**As a result, IFRS for SMEs was not ‘allowed’ to be adopted un-amended in the EU.**



## Compatibility of IFRS for SMEs and EU Accounting Legislation

- » Since 2009, both IFRS for SMEs and the EU legislation have been updated. Unfortunately, EFRAG have not updated their analysis.
- » When updating IFRS for SMEs in 2012-15, the IASB addressed one of the two main (in their view) inconsistencies raised by EFRAG:
  - » Where the useful life of goodwill cannot be established reliably, management's best estimate is used but must not exceed 10 years. Previously it had been presumed at 10 years.
- » However, they decided not to change the requirement relating to equity instruments presentation as the Board believed the current requirement to be more correct.
- » It is not clear whether IFRS for SMEs was amended for any of the other 4 inconsistencies or whether any new inconsistencies resulted from the revised Accounting Directive.

# Compatibility of IFRS for SMEs and EU Accounting Legislation

## » What do EU countries say about adopting IFRS for SMEs?

(source – IASB jurisdiction profiles; please see more detailed notes provided)

- » France has concluded that there is no demand for IFRS for SMEs in France, where French GAAP is considered fit for purpose.
- » German non-listed companies can use German GAAP, i.e. the requirements of the German Commercial Code (Handelsgesetzbuch) or, in their consolidated financial statements, IFRS Standards as adopted by the EU. The German Commercial Code was revised in 2009 as an alternative to the IFRS for SMEs Standard. Currently it is the policy of the German government to keep German GAAP for entities without public accountability.
- » Denmark notes it is considering the IFRS for SMEs standard but notes that some opposition to the IFRS for SMEs Standard has been expressed by members of the European Parliament (Committee on Legal Affairs).
- » Sweden has developed a national accounting standard for large companies whose securities are not publicly traded that is based on the IFRS for SMEs Standard but with many amendments and exceptions due to Swedish law and 'Swedish practice' as well as to reflect Swedish tax law.
- » Netherlands note that the discussion re IFRS for SMEs takes place at the EU level, where to date no decision has been taken on this subject. Consequently, there is no decision in the Netherlands either.



## Compatibility of IFRS for SMEs and EU Accounting Legislation

### Conclusions:

- » IFRS for SMEs is generally consistent with EU Accounting Law, though a very few inconsistencies may remain.
- » EU countries Ireland and UK (and EEA member Norway) amended IFRS for SMEs for these inconsistencies when they adopted IFRS for SMEs as their standard for their non-PIEs
- » Some other EU countries are considering adopting amended IFRS for SMEs. Others are not.

## Advantages and disadvantages of adopting amended IFRS for SMEs

### Advantages 😊:

- » Replaces 3,000 pages of standards with one standard of 300 pages
- » Easier for companies to use, and for accountants to help them
- » Part of a consistent framework with IFRS used by PIEs
- » Enhances international reputation for transparency and competence

### Disadvantages 😞:

- » Adopting a 'new' standard would require re-training and may meet opposition as a 'reform'
- » IFRS for SMEs would need to be amended to comply with EU Law and local law and practice. World Bank can help with this!



- » Establishing an effective mechanism for enforcing compliance with reporting requirements is key.
- » Without effective compliance enforcement, it does not really matter what standard or standards are required for non-PIEs
- » Enforcing a 300 page standard is much easier than enforcing 3,000+ pages of multiple standards.
- » Enforcement needs:
  - » Effective company registry and filing enforcement
  - » Quality control of the filed financial statements
  - » Material penalties for non-compliance



## Small companies

- » The EU Directive restricts the information that can be required in small company accounts. Some further amendments to IFRS for SMEs are thus needed to reduce the required disclosures.
- » The UK has done this but has also concluded that small company financial statements must still give a ‘true and fair’ view (fairly present) and that company directors must consider if disclosure beyond the minimum allowed to be required for small companies may also be needed to give this view. Guidance is given on this issue.



## Micro-entities

- » The EU Law allows countries to reduce further requirements for micro-entities. Some countries do not require reporting other than for tax purposes. Others, such as UK, have published a separate standard (e.g. FRS 105) for micro-entity reporting
- » FRS 105 is based on the recognition and measurement requirements of IFRS for SMEs, amended to comply with the legal framework for micros, such as not allowing revaluation of assets to fair value.
- » FRS 105 requires very limited disclosures for micro-entities and makes further simplifications beyond those in the EU law, such as presumed 'true and fair view', no accounting for deferred tax and no accounting policy options



## Micro entities

- » *The micro entity regime (in the EU Accounting Directive) and the UK's FRS 105 feature:*
  - » *Simpler Balance Sheet and Profit and Loss accounts, and no Directors' report*
  - » *No notes are required – details of certain items, known as 'minimum accounting items' are required at the foot of the BS*
  - » *Fair value and deferred tax are prohibited; items such as investment property are shown at cost*
  - » *Financial statements prepared in accordance with the regime are presumed by law to give a true and fair view*
  - » *Only the BS with footnote info is required to be filed with the company registry*



## Questions for you to consider

1. *Would adopting IFRS for SMEs in place of national GAAP in your country bring benefits? And would the benefits exceed the costs?*
2. *What would be the barriers to adopting IFRS for SMEs for non-PIEs? What would help to address these barriers?*
3. *Does it matter what standards are required – will they be enforced? What help is needed in this area?*