IFRS for SMEs
Strategy and update

Darrel Scott and Aishat Akinwale
ACOA June 2019
Agenda for the session

IFRS Africa Strategy

Notable IFRS projects
1. Comprehensive review of the *IFRS for SMEs* Standard
2. Subsidiaries that are SMEs
3. Extractive Activities

Going Forward
IFRS Strategy

About us

• Not-for-profit organisation
• IFRS Standards are set by International Accounting Standards Board
• Responsibility for governance and oversight lies with the IFRS Foundation Trustees, who are accountable to a Monitoring Board of public authorities
IFRS Strategy

**Objectives**

- Develop a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles;
- Promote the use and rigorous application of those standards;
- Take account of the needs of varied sizes and types of entities in diverse economic settings; and
- Promote adoption of IFRS Standards.
IFRS Strategy

Process

- The Board and IFRIC follow a due process based on transparency, full and fair consultation and accountability
- That due process ensures the public can follow each stage of standard-setting and participate by sharing their views
- All papers prepared for Board and IFRIC meetings are published on our website and meetings are broadcast live and recorded
- Proposals to introduce or change IFRS Standards, for Interpretations and tentative agenda decisions are published for public consultation
- Feedback from stakeholders to these consultations is also published online
## IFRS Strategy
### Africa

Africa analysis from IFRS profiles:

<table>
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<th>Jurisdictions</th>
<th>Total</th>
<th>Proportion</th>
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<tbody>
<tr>
<td>In the region</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Profiled</td>
<td>38</td>
<td>100%</td>
</tr>
<tr>
<td>Require IFRS for all or most</td>
<td>36</td>
<td>95%</td>
</tr>
<tr>
<td>Permit or require IFRS for at least some</td>
<td>1</td>
<td>2.5%</td>
</tr>
<tr>
<td>Neither require or permit</td>
<td>1</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
IFRS Strategy

Africa

- Assign an IFRS contact person for each jurisdiction
- Build and maintain relationships with local/regional standard setter and/or institutes
- Provide an avenue for technical commentary, including IFRS participation in PAFA and regional events
- Encourage regional and individual participation in IFRS consultation processes
- Work with local and regional regulators, global institutions and PAFA to identify and assist with compliance issues
Comprehensive Review of the *IFRS for SMEs* Standard
The IFRS for SMEs Standard

• 250 pages long
• based on principles from IFRS Standards
• tailored for small and medium-sized entities (SMEs) that are not publicly accountable
• focuses on information needs of lenders and other users of SME financial statements
Benefits of a global standard for SMEs

Enhances comparability of financial statements (consistent application of a Conceptual Framework for Financial Reporting)

Improves efficiency of allocation and pricing of capital

Facilitates consistency in audit quality

Facilitates education and training

1 Paragraph BC36 of the IFRS for SMEs Standard.
Comprehensive Review
2019 Review status

October 2015
Issued amended
IFRS for SMEs Standard
effective 1 January 2017

January 2019
2019 Review begins

February 2019
The Board
Project plan for 2019 Review
Phase 1: issue RFI

Late 2019
Publish RFI

2019

January 2019
SMEIG Consultative Group
(Outreach requests)
Advice on RFI\(^1\) content
Issues affecting jurisdictions

March to September 2019
The Board
Discuss potential content of
the RFI

\(^1\) RFI = Request for information.
The Request for Information (RFI) is the first step of the 2019 Review.

The objective of the RFI is:
- to provide the Board with evidence
- to enable it to decide if, and how, to develop an Exposure Draft
- what amendments to include in the *IFRS for SMEs* Standard
Scope of Request for Information

**Scope of IFRS for SMEs**
Should the scope of the *IFRS for SMEs* standard be expanded?

**Consider new and revised IFRS standards**
Should the *IFRS for SMEs* Standard be amended to reflect new and amendments to IFRS Standards?

**Implementation challenges identified by entities applying IFRS for SMEs Standard**
Are there implementation challenges applying IFRS for SMEs Standard?
Scope
IFRS for SMEs 2015

An SME is an entity that:
- is not publicly accountable; and
- publishes general purpose financial statements for external users

A publicly accountable entity is an entity that:
- has debt or equity instruments traded on a public market (or it is in the process of issuing such instruments for trading in a public market)
- holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses
Scope

*IFRS for SMEs 2015*

No requirement for GPFS

No IFRS requirement

*IFRS for SMEs*

Full IFRS

Publically accountable

Not publically accountable, but require GPFS

E.g., financials for tax or partners
The Board could consult on permitting the following publicly accountable entities to apply the IFRS for SMEs Standard:

Entities whose securities are traded in public markets:
- if these entities are small or narrowly held; and
- if their securities are traded in alternative markets.

Entities holding assets in a fiduciary capacity:
- small financial institutions e.g. small credit unions, small private banks and small building societies
The Board could consult on permitting entities to apply the *IFRS for SMEs* standard only if:

- their shares are traded on an alternative market
- their shares are closely held
- their shares are not regularly traded
- their shareholders unanimously agree
Scope

Possible amendments – fiduciary capacity

The Board could consult on permitting entities to apply the *IFRS for SMEs* standard only if:

- they have a strictly defined and limited group of members
- they have fewer than a specified number of members
- their members unanimously agree
Alignment
Should IFRS for SMEs standard be aligned with full IFRS

Approach 1
• the Standard should be aligned with new and amended IFRS Standards
• Should also be amended for SME ‘sourced’ issues

Approach 2
• the Standard should constitute a stable platform
• only be updated to resolve specific SME sourced issues
Alignment
Some considerations

Approach 1—simplified IFRS
• Full IFRS changes originate consideration of changes to *IFRS for SMEs*
• Alignment principles used to determine if and how
• Structured approach to explaining deviations from full IFRS Standard
• Standard continues to evolve in line with full IFRS Standards

Approach 2—*independent Standard*
• SME constituents originate consideration of changes to IFRS for SMEs
• Would not need alignment principles
• Over time will lead to significant differences
• Represents a change in approach
Implementation challenges

• Interpretation **difficulties** *for example*
  – Meaning of **fiduciary capacity**

• **Differences** between IFRS for SMEs standard and full IFRS standards *for example*
  – Capitalisation of **development costs**
  – Borrowing costs

• Matters of **interest to SMEs**, but not captured in full IFRS standards *for example*
  – **Cryptocurrencies**
  – Crowd funding
Feedback sought

- We consider that these issues are specifically relevant in emerging markets
- Working with PAFA standard setters to facilitate an Africa response to request for information (RFI):
  - At a strategic level (especially scope and alignment), and
  - At a detail level (individual issues and IFRSs)
- Would strongly encourage individual countries to respond as well especially to the strategic issues

RFI: Approximately January 2020
Join the IFRS Foundation team

- a mission that matters
- working with global accounting experts
- access to network of influential people
- small organisation with a big impact
- unique development opportunities
- intellectually stimulating
- international environment

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Appendix: Supporting the IFRS for SMEs Standard
SME Implementation Group

• The SME Implementation Group (SMEIG) was formed to support implementation of the IFRS for SMEs Standard.

• The SMEIG terms of reference are to:
  – consider & make recommendations to Board on need to amend the IFRS for SMEs Standard; and
  – consider implementation questions raised by users of the IFRS for SMEs Standard.

• The group has 26 member accountants from countries around the world
Questions & Answers

• Implementation questions can be submitted at any time:
  – referred to SME Implementation Group (SMEIG) if likely to meet criteria in paragraph 15 of SMEIG Terms of Reference and Operating Procedures; or
  – considered when updating education materials.

• The questions are used to develop non-mandatory guidance about implementing the IFRS for SMEs Standard (Q&As)
How to submit an issue

Supporting materials for the IFRS for SMEs Standard

Small companies and other interested parties can submit implementation issues on the IFRS for SMEs for consideration. Submitted issues will be dealt with by staff in one of two ways:

1. Staff will refer the issue for consideration by the SME Implementation Group (SMEIG) if they think the issue is likely to meet the criteria in paragraph 15 of the Terms of Reference and Operating Procedures for the SMEIG. For these issues the SMEIG will then consider whether to develop non-mandatory implementation guidance to address the issue in the form of questions and answers (Q&As).

2. Other issues will be considered by the staff when updating our education material or held for consideration during the next periodic review of the IFRS for SMEs, as applicable.

The paragraph 15 criteria referred to above sets out that an issue should be pervasive, that unintended or inconsistent implementation has or is likely to occur because of lack of clarity in the Standard, and that the SMEIG can reach a consensus on the appropriate treatment on a timely basis.

Submit an issue to the IFRS for SMEs team

https://www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes/#Submit
**Modules**

**Purpose**

- designed to support anyone learning about, applying, or reading financial statements prepared using the *IFRS for SMEs* Standard

**A module for each section**

- the section’s requirements;
- significant estimates and other judgements;
- comparison with full IFRS Standards; and
- comprehensive examples and activities