BACKGROUND TO THE IFRS FOR SMES STANDARD

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in the IASB® Update.
Contents

• Development of the *IFRS for SMEs* Standard
• Why the Board developed the *IFRS for SMEs* Standard
• Scope of the *IFRS for SMEs* Standard
• Maintenance of the *IFRS for SMEs* Standard
• Supporting the *IFRS for SMEs* Standard
• Global adoption of the *IFRS for SMEs* Standard
Development of the *IFRS for SMEs* Standard
Development of the *IFRS for SMEs* Standard

- **2000**
  - International Accounting Standards Committee observed that a demand for special version of accounting standards for small enterprises

- **2001**
  - International Accounting Standards Board (Board) commences a project to develop an accounting standard for Small and Medium-sized Entities (SMEs)

- **2002**
  - Standards Advisory Council (predecessor to the IFRS Advisory Council) supports project to create an SMEs standard
Development of the *IFRS for SMEs* Standard

**June 2004**
- The Board publishes Discussion Paper *Preliminary views on accounting standards for SMEs*
  - invites comments on Board’s approach to project
  - receives 120 comment letters

**Discussion Paper Feedback**
- Stakeholders support development of the *IFRS for SMEs* Standard
- The stakeholders prefer adopting the *IFRS for SMEs* Standard as developed by Board rather than locally or regionally developed standards

**February 2007**
- Board published Exposure Draft examining a proposed stand-alone standard for small and medium-sized entities
- receives 162 comment letters
Development of the *IFRS for SMEs* Standard

- **March 2008**
  - Board begins deliberations of feedback on the Exposure Draft

- **July 2009**
  - Board issues the *IFRS for SMEs* Standard

- **2010**
  - The SME Implementation Group (SMEIG) established
Why the Board developed the *IFRS for SMEs* Standard
Why a global standard for Small and Medium Entities (SMEs)?

- Improves efficiency of allocation & pricing of capital.
- Improves consistency in audit quality.
- Facilitates education and training.
Considerations in developing an *IFRS for SMEs* Standard?

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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<tr>
<td>Is developing an <em>IFRS for SMEs</em> Standard consistent with Board’s mission?</td>
<td>• The IFRS Foundation <em>Constitution</em>(^1) states that fulfilling objectives takes into account, as appropriate, the needs of a range of entity sizes and types in diverse economic settings</td>
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<td>Should Standards for SMEs be developed by others?</td>
<td>• The Board considered whether an SMEs standard should be developed country–by–country, at a regional level, or by the Board.</td>
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<td>• The Board decided that by developing an SMEs standard itself, it would bring global consistency &amp; comparability to financial statements</td>
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<td>Do national standard-setters support the Board developing an <em>IFRS for SMEs</em> Standard?</td>
<td>• National standard-setters support the Board developing a standard for SMEs</td>
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\(^1\) IFRS Constitution para 2(c), as at 29 November 2018.
Scope of the IFRS for SMEs Standard
Users of the financial reports of SMEs

• The *IFRS for SMEs* Standard is intended for non-publicly accountable entities that publish general purpose financial statements for external users.

• Main users of the financial statements are:
  – banks
  – shareholders that are not managers
  – customers of SMEs
  – vendors that sell to SMEs in making pricing and credit decisions
  – credit-rating agencies that use financial statements to rate SMEs
Considerations on the scope of the *IFRS for SMEs* Standard

In defining the scope for the *IFRS for SMEs* Standard the Board considered the application of the Standard to various entities, including:

- those whose securities are traded in public markets;
- financial institutions that have public accountability;
- SMEs providing essential public services; and
- SMEs that are economically significant in home jurisdictions.
Scope of the *IFRS for SMEs* Standard

- The *IFRS for SMEs* Standard describes small and medium-sized entities as those that:
  - do not have public accountability; and
  - publish general purpose financial statements for external users
An entity’s debt or equity instruments are traded on a public market

OR

An entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses
Maintenance of the IFRS for SMEs Standard
Initial comprehensive review of the *IFRS for SMEs* Standard

- **Timeline:**

  - **2012:** RFI Commenced April 2012
  - **2013:** Exposure Draft Comment period
  - **2014:** Comment period
  - **2015:** Standard Published May 2015 (effective 1 January 2017)
Scope of the initial Request for Information

Use by publicly traded entities
- Should some publicly traded entities be permitted to apply the IFRS for SMEs Standard?

Use by financial institutions & similar entities
- Should some financial institutions be permitted to apply IFRS for SMEs Standard?

Clarification of use by not-for-profit entities
- Should the IFRS for SMEs Standard be revised to clarify if not-for-profit entities are eligible to apply it?
Scope of the initial Request for Information

Consider new & revised Standards

• Should 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 of applying IFRS for SMEs Standard?
• Should income tax recognition and measurement requirements be aligned to IAS 12?
Board’s decisions in response to Request for Information

• The Board received feedback on all questions in the Request for Information

• The Board decided, because the IFRS for SMEs Standard was still newly adopted in many jurisdiction, to focus on:
  – maintaining stability;
  – amending for implementation challenges only; and
  – supporting current practice.

• The Board decided that a subsequent review would be more comprehensive and revisit matters from the 2012 Review
Overview of 2015 amendments

Key amendments:

• permitted revaluation model for property, plant and equipment
• aligned recognition and measurement requirements for income tax with IFRS Standards; and
• included further targeted undue cost or effort exemptions, plus
  – guidance on application of the exemption; and
  – required disclosure of reasoning.

Most other amendments:

• clarified or added guidance; and
• applied to ‘non-typical’ SME transactions.
Recommendations for future review of the *IFRS for SMEs* Standard

- The Board recommended that for future reviews:
  - Each new and revised IFRS Standard was *considered individually*
  - Considered only once published
  - Assessed based on implementation experience
- Possible modifications would be based on *users’ needs and cost-benefit* considerations
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 28 member accountants from countries from around the world.
Supporting the *IFRS for SMEs* Standard—questions

- 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.
Supporting *IFRS for SMEs* Standard—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 of the Standard includes**

- the section’s requirements;
- significant estimates and other judgements;
- comparison with full IFRS Standards; and
- comprehensive examples and activities.
Supporting *IFRS for SMEs* Standard—stakeholder engagement

• As part of outreach initiatives, the Board has discussed the *IFRS for SMEs* Standard following groups:
  
  – World Standard-setters;
  – Emerging Economies Group; and

• Questions from the groups focused on:
  – issues for the Board to consider in the next review;
  – the scope of the Request for Information; and
  – feedback from an AOSSG survey.
Global adoption of the *IFRS for SMEs* Standard
Adoption of the *IFRS for SMEs* Standard

86 of 166 jurisdictions require or permit use of the *IFRS for SMEs* Standard

![Map showing adoption of the IFRS for SMEs Standard](image)

- Blue = the *IFRS for SMEs* Standard is required or permitted
Benefits of the *IFRS for SMEs Standard*

- Good financial reporting made simple:
  - less than 250 pages;
  - simplified IFRS Standard built on a foundation of IFRS Standards;
  - stand-alone;
  - designed specifically for SMEs; and
  - internationally recognised.
Get involved

Find out more: www.ifrs.org

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