

# IFRS as a trusted language for private firm credit decisions

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# Introduction

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- Thanks to the authors for the paper
- A lot of the focus in IFRS world tends to be on publicly accountable entities in developed 1<sup>st</sup> world economies
  - Focus in this paper on private entities applying both IFRS and IFRS for SMEs
- Regional reach in developing regions:
  - Africa, Asia-Pacific and Latin America
  - Over 100 bankers interviewed across these regions



# Comments on findings

# IFRS vs IFRS for SMEs

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- Confirmed that IFRS/IFRS for SMEs superior to local non-IFRS based GAAP
- Further analysis into:
  - In countries where both are available, what percentage use SMEs
  - At what point bankers see more value in IFRS than IFRS for SMEs
  - Impact of one framework vs another when assessing cost of borrowings

# Gap analysis

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## Gold Standard (RP1)

- IFRS
- Regulation
- Audit



More feedback on the impact of each component on trust –  
Roadmap based on figure 1



## Challenges

- Local GAAP
- Weak informal regulation
- Unreliable/untrusted audit

# Additional information

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- Use of additional information in lending decisions
  - Information on owners, directors and managers cited as an example. Are there other aspects included in Management Commentary that would be considered in making assessments
  - Is the tax information that is used based on IFRS or IFRS for SMEs reporting

# Auditing

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- High quality auditing is cited as a major factor in the acceptance of financial reports.
  - What is a low quality auditor?
  - Reasons for the low quality audit (linked to financial reporting):
    - Are the standards too complex
    - Education in the market

# Adoption

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- One of the challenges on the adoption of IFRS for SMEs in Zimbabwe was that there was no strong regulation of private company reporting
  - Does this challenge also impact private companies reporting under IFRS?
- Education of the market was also seen as a challenge with the adoption of the SME standard.
  - Do you believe the foundation has a role to play

# Conclusion

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- Positive to hear that IFRS is seen as the gold standard for company reporting
  - Accepting the limitations imposed in the local market
- Positive to hear that some countries see IFRS for SMEs as an improvement from local GAAP (where this was applied)
- Is value in exploring some of the issues
- Thanks again to the authors!

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