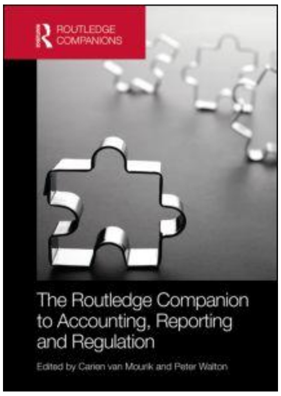

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The IFRS for SMEs

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The IFRS for SMEs

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Good financial reporting makes investing and lending more efficient. Historically financial reporting standards were developed by each country individually. Sometimes they were set by government, in other cases by the accounting profession, and, in still other cases, by an independent board. National standards made sense when companies raised money, and investors looked for investment opportunities, only in their home country.

But a huge change has occurred in the past 35 years – the globalization of the world's capital markets. Now, investors seek investment opportunities all over the world, and companies look for capital at the lowest price anywhere. Almost daily we read about cross-border mergers, and individual investors can turn on their computer and buy stocks on securities markets worldwide.

In globalized capital markets, accounting differences make financial reports less understandable and complicate comparisons that investors and creditors want to make, hindering the efficient allocation of capital. This is true equally for equity capital and debt capital, and also for large companies and small ones.

1. Why have global accounting standards?

High quality global financial reporting standards – carefully applied and rigorously enforced – benefit capital providers by:

- presenting financial information that is understandable, both domestically and across borders;
- enhancing comparability between entities; and
- raising the level of confidence that capital providers can have in the financial statements they receive.

Global standards also benefit companies that seek capital by:

- reducing compliance costs;
- enabling access to international or overseas sources of capital by providing financial information in an understandable 'global language'; and
- removing other uncertainties that affect their cost of capital.

Global standards also improve consistency in audit quality and facilitate education and training and software development. In contrast, if financial reporting is country specific then home-grown training materials, audit methodologies, and application software must be developed from scratch. In 1973, the accounting standard setters in nine countries acknowledged the need for global accounting standards by jointly creating the International Accounting Standards Committee (IASC), predecessor of the International Accounting Standards Board (IASB). The IASC was a part-time body that produced a series of International Accounting Standards (IASs 1 to 41). However, by 2000, there were only a limited number of voluntary adoptions of IASs by listed companies, and very few adoptions by unlisted companies.

In 2001, the IASC was reorganized to become the full-time IASB. The IASB's objective is to develop a single set of high quality, understandable, enforceable, and globally accepted financial reporting standards based on clearly articulated principles. The IASB is an independent 16-member board, overseen by a geographically and professionally diverse body of trustees of the IFRS Foundation, and publicly accountable to a monitoring board of public capital market authorities. In developing its standards, the IASB follows a thorough, open, participatory, and transparent due process. The IASB engages with investors, regulators, business leaders, and the global accountancy profession at every stage of the process.

By early 2013, the IASB had produced the first 13 in its series of International Financial Reporting Standards (IFRSs) and has also improved virtually every one of the IASs that it inherited. By that date, as well, IFRSs had been adopted as a requirement for listed companies in over 100 countries. Europe was the catalyst for global adoptions of IFRSs – deciding in 2002 to make the use of IFRSs mandatory in the consolidated financial statements of companies listed on regulated European securities markets starting in 2005. Once Europe made the decision, dozens of other countries followed. And many other countries that did not adopt IFRSs directly have instead converged their national standards with IFRSs.

2. Why a global standard for SMEs?

This growing use of IFRSs around the world (directly or via national convergence) occurred at the same time as IFRSs themselves were greatly expanded, made more rigorous and more detailed, and (by addressing tough issues) made more complex. Not surprisingly, small companies began expressing concerns that those complex and detailed standards were beyond their needs and capabilities – and the resulting financial statements, while suitable for investors in listed companies, were not aimed at the kinds of credit and lending decisions that most users of the financial statements of small companies have to make. And, the little companies said, the volume and complexity of required disclosures is burdensome and excessive.

In late 2003, the IASB decided to develop a separate standard for smaller companies in response to overwhelming demand from regulators, standard-setters, small businesses, and auditors in both developed and emerging economies across the globe. Lenders, vendors, customers, rating agencies, venture capitalists, and outside investors all use the financial statements of SMEs to make credit, lending, and investment decisions. Often, those are cross-border decisions. High-quality, comparable information, tailored to their needs, is important to them. There is, therefore, a public interest in sound and transparent financial reporting by small companies.

In most countries in the world, all or most SMEs are required by law or government regulation to prepare and publish general purpose financial statements – and, in many jurisdictions, to have them audited. (General purpose financial statements are described in Section 9.1 of this chapter.) In the European Union there are around 25 million business entities (including corporations, partnerships, proprietorships, and co-ops) of which, by law, around 5 million must publish general purpose financial statements; 6 million in Brazil and 800,000 in Hong Kong must prepare financial statements. And so on in most countries.

A few are different. In the United States there are around 25 million businesses of which only a relative handful (perhaps 25,000) have a statutory requirement to prepare general purpose financial statements based on US generally accepted accounting principles (GAAP). The rest are free not to prepare financial statements at all or to use other financial reporting frameworks (with disclosure). Australia is similar to the United States in that only listed and the very largest unlisted companies must prepare general purpose financial statements.

It is not the IASB or the accounting profession who impose financial reporting obligations in jurisdictions around the world – it is legislators and regulators. Their goal is to protect the public interest by having good information available to capital providers and others.

SMEs do not usually have the capabilities to comply with all of the complexities of full IFRSs, which include many detailed disclosures designed to meet the needs of public capital markets. Nor do SMEs often have the resources to hire outside experts to help them comply. A further reality in some jurisdictions is that the quality of implementation of full IFRSs (or converged local equivalents) needs improvement. That is particularly true in the case of small companies and developing countries. Some jurisdictions have developed their own SME standards applicable to non-public companies. Often, however, those have serious limitations from a user perspective, are not readily understood by lenders and other capital providers, particularly across borders, have limited support (e.g. textbooks and software), and sometimes are weakly enforced. For example:

- Many national GAAPs for small companies today do not require a cash flow statement, even though the great majority of bank lenders and short-term creditors say the cash flow statement is essential to them.
- Often under national SME GAAPs, relatively short-term obligations are off the balance sheet entirely – for example, by measuring derivatives at cost (which is nil) or by not recognizing them at all, and by ignoring deferred tax, employee benefit, and warranty obligations.
- Some national standards for SMEs do not require SMEs to recognize impairments of both financial and non-financial assets on a timely basis, leading to overstatements of assets.
- Some national standards for SMEs recognize all factorings of receivables as sales rather than collateralized loans without regard to the extent of credit risk that the SME may have retained.
- Often related party disclosures are minimal under national SME GAAPs.

Capital providers want transparency. They know how to assess and balance both good news and bad news. What they abhor (and impose a price for) is uncertainty.

3. Full IFRSs include a few differences for non-public entities

Even before the IASB decided to develop an International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), full IFRSs included several differences for entities whose securities are not publicly traded. These were (and are):

- IAS 14 *Segment Reporting* requires disclosure of segment information only by entities whose debt or equity instruments are traded or being registered for trading in a public market. IFRS 8 *Operating Segments,* which replaced IAS 14 effective in 2009, similarly is mandatory only for public companies;
- IAS 27 *Consolidated and Separate Financial Statements* exempts some parent entities from preparing consolidated financial statements if (a) the parent itself is a subsidiary of an IFRS parent and (b) its debt or equity instruments are not traded or being registered for trading in a public market. Similar exemptions were in IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. Those standards were recently amended or replaced by IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. The new standards continued the exemptions that were in the old standards; and
- IAS 33 *Earnings per Share* requires presentation of earnings per share data only by entities whose ordinary shares or potential ordinary shares are publicly traded or being registered for trading.

4. Development of the IFRS for SMEs

In late 2003 the IASB began a project to develop a separate, simplified IFRS for SMEs. That standard was issued six years later, in July 2009. In developing the IFRS for SMEs the IASB consulted extensively worldwide. A working group of nearly 40 SME experts advised the IASB on the structure and content of the SME standard at various stages in its development. The exposure draft of the IFRS, published in 2007, was translated into five languages to assist SMEs in responding to the proposals. More than 50 round-table meetings and seminars were held to receive direct feedback, and the draft IFRS was field-tested by 116 SMEs in 20 countries. As a result, further simplifications were achieved in the final document. Key steps leading to issuance of the IFRS for SMEs were:

- July 2003: IASB deliberations began, having carried forward the project from the former IASC agenda.
- June 2004: publication of the discussion paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*; comment deadline was 24 September 2004.
- April 2005: staff questionnaire on *Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs)*.
- October 2005: public round-table discussions with the Board on recognition and measurement simplifications.
- July 2003 to February 2007: deliberation of the issues by the Board at 31 public Board meetings.
- August 2006: a complete staff draft of the exposure draft (ED) was posted on the IASB website.
- November 2006: a revised staff draft was posted on the IASB website.
- February 2007: publication of the ED (English language); comment deadline was 30 November 2007.

- April–September 2007: translations of the ED into four languages were posted subsequently.
- April 2007: publication of a staff overview of the ED on the IASB's website.
- June 2007: field-testing of the ED with the participation of 116 small companies in 20 countries.
- November 2007: end of the comment period; 162 comment letters received.
- March to April 2008: staff present to the Board an overview of the main issues raised in the comment letters and field tests.
- April 2008: working group submits comprehensive recommendations for possible changes to the ED.
- May 2008 to April 2009: Board redeliberations of the proposals in the ED at 13 public Board meetings.
- April 2009: Board decides that the name of the final standard will be International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), as proposed in the ED.
- June 2009: 13 Board members vote in favour, 1 dissenting opinion.
- July 2009: publication of the IFRS for SMEs.

5. Initial thinking of the board at the beginning of the project

At the beginning of the process, a large minority of the IASB Board members were skeptical about the need for any simplifications of principles for recognizing and measuring assets and liabilities in SME financial statements. On the one hand, Board members believed that the same concepts of financial reporting are appropriate for all entities regardless of public accountability – particularly the concepts for recognizing and measuring assets, liabilities, income, and expenses. This suggested that a single set of accounting standards should be suitable for all entities, although it would not rule out disclosure differences based on users' needs and cost–benefit considerations. On the other hand, the Board acknowledged that differences in the types and needs of users of SMEs' financial statements, as well as limitations in, and the cost of, the accounting expertise available to SMEs, suggested that a separate standard for SMEs is appropriate. The preliminary views of the Board, published in a June 2004 discussion paper, included the following:

- There were no recognition or measurement simplifications, only disclosure simplifications.
- If the IFRS for SMEs does not address a particular accounting recognition or measurement issue that is addressed in full IFRSs, the entity would be required to look to full IFRSs to resolve that issue (sometimes called a 'mandatory fallback' to full IFRSs).
- An entity using the IFRS for SMEs may elect to follow a treatment permitted in full IFRSs that differs from the treatment in the IFRS for SMEs (sometimes called an 'optional fallback' to full IFRSs).
- Assent of all owners would be required to use IFRS for SMEs.
- A subsidiary, associate, or joint venture must use full IFRSs if its parent or principal investor uses full IFRSs (ie, the investee would not be eligible to use the IFRS for SMEs).
- An entity that is economically significant in its home country must use full IFRSs.
- An entity that is a public utility or that provides an essential public service must use full IFRSs.
- Organize the SME standard by the same IAS/IFRS statement number and sequence as full IFRS, not by topic.

After considering the responses to the discussion paper, the Board's views on all of the above changed significantly. In the final IFRS for SMEs:

- many of the principles for recognizing and measuring assets, liabilities, income, and expense in full IFRSs have been simplified, mainly on two grounds:
  - the need by users of SME financial statements for information that helps them assess short-term cash flows, liquidity, and solvency. These users ask: If I lend money to the SME, will they be able to pay back the principal and interest when due? And if I sell goods or services to the SME on credit, will they be able to pay the invoice when I send it? Unlike equity investors in public capital markets, they are not concerned with forecasting earnings and share prices or with long-term forecasts in general.
  - the capabilities and resources available to SMEs;
- disclosures have been significantly reduced as compared to full IFRSs;
- there are no mandatory fallbacks to full IFRS. If the SME standard does not address an issue, management is permitted but not required to consider the requirements and guidance in full IFRSs;
- the IFRS for SMEs is organized topically;
- assent of all owners is not required to use the IFRS for SMEs;
- a subsidiary, associate, or joint venture may use the IFRS for SMEs in its separate financial statements even if its parent or investor uses full IFRSs;
- an entity that is economically significant in its home country is not restricted from using the IFRS for SMEs; and
- an entity that is a public utility or that provides an essential public service is not restricted from using the IFRS for SMEs.

6. Most contentious issues

In developing the IFRS for SMEs, the following were some of the more contentious technical issues:

- income taxes – whether SMEs should recognize deferred taxes;
- consolidation – whether it should be required;
- goodwill – whether to amortize or just have an annual impairment test as in full IFRSs;
- cash flow statement – whether it should be required for SMEs;
- micro entities – whether a separate standard is needed;
- financial instruments – which ones should be measured at amortized cost, and whether fair value or amortized cost should be the default measurement category;
- share-based payment – whether SMEs should recognize share-based payment transactions, such as share options given to employees;
- defined benefit pension plans – whether to require accrual of the unfunded liability and by what method;
- whether to allow an SME to choose any recognition or measurement option allowed in full IFRSs; and
- the name of standard – IFRS for SMEs? IFRS for Private Entities? IFRS for Non-publicly Accountable Entities?

7. Final IFRS for SMEs

The IFRS for SMEs is divided into 35 sections, plus a preface and a glossary. The sections are organized topically – starting with scope, concepts, and basic principles, and then financial statement presentation, balance sheet, income statement, and other issues – as in Table 21.1.

Table 21.1 The sections of the IFRS for SMEs

Section No.	*Section title*
1	Small and medium-sized entities
2	Concepts and pervasive principles
3	Financial statement presentation
4	Statement of financial position
5	Statement of comprehensive income and income statement
6	Statement of changes in equity and statement of income and retained earnings
7	Statement of cash flows
8	Notes to the financial statements
9	Consolidated and separate financial statements
10	Accounting policies, estimates and errors
11	Basic financial instruments
12	Other financial instruments issues
13	Inventories
14	Investments in associates
15	Investments in joint ventures
16	Investment property
17	Property, plant and equipment
18	Intangible assets other than goodwill
19	Business combinations and goodwill
20	Leases
21	Provisions and contingencies: Appendix – guidance on recognising and measuring provisions
22	Liabilities and equity: Appendix – example of the issuer's accounting for convertible debt
23	Revenue: Appendix – examples of revenue recognition under the principles in Section 23
24	Government grants
25	Borrowing costs
26	Share-based payment
27	Impairment of assets
28	Employee benefits
29	Income tax

(*Continued*)

Table 21.1 Continued

Section No.	*Section title*
30	Foreign currency translation
31	Hyperinflation
32	Events after the end of the reporting period
33	Related party disclosures
34	Specialised activities
35	Transition to the IFRS for SMEs

Source: The full text of the standard in multiple languages is available for download without charge from http://go.ifrs.org/IFRSforSMEs

The IFRS for SMEs is accompanied by two separate booklets, one setting out the basis for the Board's conclusions and the other containing illustrative financial statements and a presentation and disclosure checklist. For full IFRSs, the main standards section is available for free download from the IASB's website, but not the implementation guidance (such as illustrative financial statements) or the basis for conclusions. For the IFRS for SMEs, all of its components are available for free download, in English and many other languages.

8. How the IFRS for SMEs differs from full IFRSs

The IFRS for SMEs is tailored for small companies. It is organized by topic and focuses on the needs of lenders, creditors, and other users of SME financial statements who are primarily interested in information about cash flows, liquidity, and solvency. It takes into account the costs to SMEs and the capabilities of SMEs to prepare financial information. And compared with full IFRSs, and many national requirements, the IFRS for SMEs is less complex in a number of ways; for example it has only 230 pages, compared with over 3,000 in the full IFRSs.

8.1 Five types of simplification

The IFRS for SMEs reflects five types of simplification compared with full IFRSs:

- some topics in full IFRSs are omitted because they are not relevant to typical SMEs;
- some accounting policy options in full IFRSs are not allowed because a more simplified method is available to SMEs;
- many of the recognition and measurement principles that are in full IFRSs have been simplified;
- substantially fewer disclosures are required (a reduction of roughly 90 per cent from full IFRSs); and
- the text of full IFRSs has been redrafted in 'plain English' for easier understandability and translation.

Sections 8.2 to 8.5 of this chapter give more detail on those simplifications. Note that those sections outline the simplifications made to full IFRSs at the time the IFRS for SMEs was issued in July 2009. Since then several new and revised IFRSs have been issued, including IFRSs 9 to 13, IFRIC 19 and 20, and amendments to many existing standards. Most of the new and revised IFRSs are not yet effective (although they do allow for early adoption). However, when they do become effective, and as full IFRSs continue to be updated, the differences between full IFRSs and the IFRS for SMEs outlined in 8.2 to 8.5 will change.

8.2 Omitted topics

The IFRS for SMEs does not address the following topics that are covered in full IFRSs:

- earnings per share;
- interim financial reporting;
- segment reporting; and
- special accounting for assets held for sale.

8.3 Options in full IFRSs eliminated in the IFRS for SMEs

Examples of complex options in full IFRSs that have been eliminated in the IFRS for SMEs include:

- financial instrument options, including available-for-sale, held-to-maturity, and fair value options;
- the revaluation model for property, plant, and equipment;
- the revaluation model for intangible assets;
- proportionate consolidation for investments in jointly-controlled entities (the Board has recently eliminated proportionate consolidation for investments in jointly-controlled entities in full IFRSs effective 2013);
- for investment property, measurement is driven by circumstances rather than allowing an accounting policy choice between the cost and fair value models; and
- various options for government grants.

8.4 Recognition and measurement simplifications

The main simplifications to the recognition and measurement principles in full IFRSs include:

- *Financial instruments:*
    - Financial instruments meeting specified criteria are measured at cost or amortized cost. All others are measured at fair value through profit or loss. This avoids the inherent complexities of classifying financial instruments into four categories, such as assessing management's intentions and dealing with 'tainting provisions' regarding classification of financial assets as held to maturity;
    - the IFRS for SMEs establishes a simple principle for derecognition. The 'pass-through' and 'continuing involvement' tests in full IFRSs are dropped;
- *Hedge accounting requirements*: including the detailed calculations, are simplified and tailored for SMEs;
- *Goodwill and other indefinite-life intangible assets:* always amortized over their estimated useful lives (presumed to be ten years if useful life cannot be estimated reliably). An impairment test is performed only if there is an indication of impairment (full IFRSs would require the test annually);

- *Investments in associates and joint ventures:* can be measured at cost unless there is a published price quotation (in which case fair value must be used unless the equity method is used for all investments);
- *Research and development costs:* must be recognized as expenses when incurred;
- *Borrowing costs:* must be recognized as expenses when incurred;
- *Property, plant and equipment and intangible assets:* residual value, useful life, and depreciation method for items of property, plant, and equipment, and amortisation period/method for intangible assets, need to be reviewed only if there is an indication they may have changed since the most recent annual reporting date (full IFRSs would require an annual review);
- *Defined benefit plans:*
  - all past service cost must be recognized immediately in profit or loss;
  - all actuarial gains and losses must be recognized immediately either in profit of loss or other comprehensive income;
  - an entity is required to use the projected unit credit method to measure its defined benefit obligation and the related expense only if it is possible to do so without undue cost or effort. Otherwise, the IFRS for SMEs provides for a simplified measurement model;
- *Income tax:* requirements follow the approach set out in the Board's ED Income Tax, published in March 2009, which proposed a simplified replacement for IAS 12 Income Taxes. The IASB has decided not to finalize that ED for full IFRSs;
- *Non-current assets and disposal groups held for sale:* no separate held-for-sale classification. Instead, holding an asset (or group of assets) for sale is an impairment indicator;
- *Biological assets:* the fair value through profit or loss model is required only for biological assets for which fair value is readily determinable without undue cost or effort. SMEs follow the cost-depreciation-impairment model for all other biological assets; and
- *Equity-settled share-based payment:* the directors' best estimate of the fair value of the equity-settled share-based payment is used to measure the expense if observable market prices are not available.

8.5 Disclosure simplifications

The disclosure requirements in the IFRS for SMEs are substantially reduced when compared with full IFRSs. In quantified terms, there has been a roughly 90 per cent reduction in the number of required disclosures. The reasons for the reductions are of four principal types:

- Some disclosures are not included because they relate to topics covered in full IFRSs that are omitted from the IFRS for SMEs.
- Some disclosures are not included because they relate to recognition and measurement principles in full IFRSs that were replaced by simplifications in the IFRS for SMEs.
- Some disclosures are not included because they relate to options in full IFRSs that are not included in the IFRS for SMEs.
- Some disclosures are not included on the basis of users' needs or cost–benefit considerations.

Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:

- Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments, or contingencies, whether or

not recognized as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well;
- Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well;
- Information on key judgments and assumptions made by management, and other key sources of estimation uncertainty that that have the most significant effect on the amounts recognized in the financial statements;
- Information about an entity's accounting policy choices is important for SMEs;
- Disaggregations of amounts presented in SMEs' financial statements are important for an understanding of those statements; and
- Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

9. Who can use the IFRS for SMEs?

The IFRS for SMEs sets out a simple principle to identify which companies are eligible to use the standard: The IFRS for SMEs is appropriate for an entity that does not have public accountability and that is required by law or regulation, or chooses, to prepare general purpose financial statements (GPFS).

9.1 General purpose financial statements

GPFS are directed to the general financial information needs of a wide range of users, including outside investors, lenders and other creditors, and other external decision makers who are not in a position to demand reports tailored to meet their particular information needs. GPFS present financial position, results of operations, cash flows, and changes in equity. An independent auditor is able to express an opinion on whether GPFS present fairly the financial position, results of operations, and cash flows of the reporting entity.

GPFS are aimed at financial statement users who are external to the company. While owner-managers of an SME will almost certainly find the information in IFRS for SMEs financial statements useful, they are not the principal audience for which the financial statements are intended. Neither full IFRSs nor the IFRS for SMEs are designed to provide the kind of management accounting information that owners and key managers need to run their business.

Nor can the IFRS for SMEs directly provide information about taxable income in a particular jurisdiction. Tax authorities have the power to demand whatever information they need to meet their statutory tax assessment and collection obligations. Nonetheless, profit or loss determined in conformity with the IFRS for SMEs can serve as the starting point for determining taxable profit in a given jurisdiction by means of a reconciliation that is easily developed at a national level.

9.2 Public accountability

An entity has public accountability (and therefore should use full IFRSs) if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments publicly; or

- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds, and investment banks.

Therefore, in simple terms, any private company that is not a financial institution is eligible to use the standard as far as the IASB is concerned. Of course, it is up to the government or the accounting profession in each jurisdiction to decide who should use the IFRS for SMEs, whether it is mandatory or optional, and if optional what the alternatives are.

The IASB's definition of SMEs does not include quantified size criteria for determining what is a small or medium-sized entity. IFRSs are used in over 100 countries. The Board concluded that it is not feasible to develop quantified size tests that would be applicable and long-lasting in all of those countries. This is consistent with the Board's general principle-based approach to standard-setting.

In deciding which entities should be required or permitted to use the IFRS for SMEs, jurisdictions may choose to prescribe quantified size criteria. Similarly, a jurisdiction may decide that certain categories of entities should be required to use full IFRSs rather than the IFRS for SMEs, for example, entities that are economically significant in that country, entities that are public utilities or that perform an essential public service, or entities that are subsidiaries of parent companies that use full IFRSs.

Section 15 of this chapter discusses the suitability of the IFRS for SMEs for micro-sized entities – those with fewer than, say, five or ten employees.

9.3 IASB's definition differs from other SME definitions

Many national governments and regulators have developed their own definitions of a small or medium-sized entity for various purposes, often for matters of economic development and national statistics gathering rather than financial reporting purposes. Similarly some regional and international non-governmental bodies have developed their own definitions. The IFRS for SMEs is clear that its definition of SME is solely for the purpose of determining eligibility to use the IFRS for SMEs. While most of the national jurisdictions that have adopted the IFRS for SMEs have used the IASB's eligibility criteria without modification, some have added size tests or other restrictions as to the use of the IFRS for SMEs.

10. Benefits of adoption of the IFRS for SMEs

Why would an SME want to adopt it? The number one reason is improved access to capital. SMEs consistently complain that 'my business is successful and growing, yet it is very hard to get a bank loan or other credit'. The lenders, on the other hand, respond 'we do not understand or have confidence in the reported financial figures'. Improved financial reporting is aimed at helping SMEs get loans and credit and/or helping to reduce the price they have to pay for that capital.

Other benefits of the IFRS for SMEs include:

- improved comparability with other companies in the same jurisdiction and across borders;
- improved quality of reporting as compared to many existing national GAAPs for SMEs;
- reduced burden for entities in jurisdictions where full IFRSs or full national GAAP are now required;

- training materials, workshops, Q&As, newsletters, and other implementation support from the IASB (discussed in Section 13 of this chapter); and
- availability of textbooks, computer software, and commercial training programmes.

11. IFRS for SMEs has influenced full IFRSs

Interestingly, the IFRS for SMEs has actually influenced changes to full IFRSs in a few instances. Here are examples of decisions the Board made in the IFRS for SMEs that subsequently also became changes to full IFRSs:

- Financial instruments (IFRS 9 *Financial Instruments*, issued May 2011):
  - Two categories – no held-to-maturity or available-for-sale (AFS) categories (though for 'political' reasons IFRS 9 ended up with a limited AFS option for equity instruments);
  - Classification is based on the cash flow characteristics of a debt instrument (held only to collect contractual interest and principal versus held for other purposes);
  - No bifurcation of derivatives;
- Defined benefit post-employment benefits (IAS 19 *Employee Benefits*, revised June 2011):
  - Actuarial gains and losses through P&L or comprehensive income; no corridor approach or other deferral mechanism;
  - Past service cost through P&L;
- Elimination of proportionate consolidation for jointly controlled entities (IFRS 11 *Joint Arrangements*, issued May 2011).

12. Who is using the IFRS for SMEs?

The IFRS for SMEs was issued in July 2009. Today, just three years later, over 80 jurisdictions have adopted it or announced plans to do so in the next several years. Very few of those have made any amendments to its contents whatsoever, and most allow or require all SMEs to use it. Of course, a company following an amended standard cannot assert compliance with the IFRS for SMEs – thereby losing a principal benefit of following a globally recognized standard. The following is a summary of jurisdictions using the IFRS for SMEs (includes several jurisdictions that have made slight amendments to the standard):

- South America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Peru, Suriname, Venezuela.
- Caribbean: Antigua and Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad.
- Central America: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama.
- Africa: Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.
- Asia-Oceania: Bangladesh, Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Samoa, Singapore, Sri Lanka, Tonga.
- Middle East: Jordan, Lebanon, Palestine, Qatar.
- Eurasia: Azerbaijan, Kyrgyzstan, Moldova, Turkey.
- Europe – non-EU: Bosnia, Macedonia, Switzerland.

- Europe – European Union: Estania, Ireland and UK have adopted (Ireland and UK with some modifications). Companies in the European Union are required to follow the EU Accounting Directives. The European Commission has done a comparison of the IFRS for SMEs with the Directives and has identified just two substantive (and minor) differences. However, to date the EU has not acted to adopt or endorse the IFRS for SMEs. The European Commission has consulted on the IFRS for SMEs and found that 19 Member States favour a member state option to permit or require the IFRS for SMEs, while six oppose. The United Kingdom and Ireland have proposed to replace their national Financial Reporting Standards with the IFRS for SMEs with some modifications including those to eliminate the conflicts with the Directives.
- North America: available for use in United States, Canada (limited use so far).

13. Implementation support

The IASB has a whole new constituency for the IFRS for SMEs, many countries where, up to now, SMEs have followed a very simple local GAAP. In recognition of this, the IASB and the IFRS Foundation are working intensively to support the smooth and rigorous implementation of the IFRS for SMEs. Historically, the IASB has not provided this degree of implementation support for full IFRSs, whereas IFRS for SMEs was accompanied by implementation support that we are providing including:

- an integrated set of illustrative financial statements (with money amounts and notes) and a presentation and disclosure checklist;
- translations of the standard and the accompanying documents (see Section 13.1 of this chapter);
- comprehensive training materials in several languages (Section 13.2);
- three-day regional training workshops held worldwide focusing on developing countries and emerging economies (Section 13.3);
- an SME Implementation Group (SMEIG) has been set up to support international adoption (Section 13.4);
- free monthly IFRS for SMEs Update newsletter (Section 13.5);
- a comprehensive IFRS for SMEs section on the IASB's website (Section 13.6);
- an executive briefing booklet (Section 13.7);
- IASB members and staff have made many presentations about the IFRS for SMEs both to encourage adoption and to explain the standard (Section 13.8);
- IFRS for SMEs XBRL taxonomy (Section 13.9); and
- links to download the IFRS for SMEs materials mentioned above and others, e.g. presentation slides from the training workshops, webcasts, and other materials without charge on the IASB's website (Section 13.10).

13.1 Translations

The standard has already been translated into 18 languages, and others are in process, as follows:

- completed: Albanian, Arabic, Armenian, Bosnian, Chinese (simplified), Croatian, Czech, Estonian, French, German, Hebrew, Italian, Japanese, Kazakh, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish, Ukranian;
- proposed or in discussion: Georgian.

13.2 Training materials

The IFRS Foundation's Education Initiative has developed self-study training materials with hundreds of guidance examples, available for free download in PDF format. There is one training module for each of the 35 sections of the IFRS for SMEs – nearly 2,000 pages of material in all.

Each module has the complete text of the section, with each paragraph annotated with commentary and numerical examples. Also, at the end of the module is a comparison with full IFRSs, discussion of significant estimates and judgements required in applying the section, a quiz (with answers), and two case studies (with solutions).

The training materials are written initially in English. So far they have been translated into Arabic, Russian, Spanish, and Turkish, with more translations to come.

13.3 Training workshops

In 2010 the IASB and the IFRS Foundation began a series of 'train the trainers' workshops on the IFRS for SMEs, many organized in conjunction with the World Bank. These are regional in the sense that participants in each workshop come from a number of countries. They are generally three days with eight classroom hours per day. The IFRS Foundation and the IASB provide the training materials and two instructors (without charge other than reimbursement of travel expenses). A regional accountancy body or other organization handles all of the arrangements.

To date workshops have been held in the following countries (listed in chronological order): Malaysia, India, Tanzania, Egypt, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Gambia, Argentina, Myanmar, Dubai, Kenya, Barbados, Bosnia, Chile, Cameroon (French West Africa), Bangladesh, Indonesia, and Abu Dhabi. Together, over 2,500 participants from 105 countries have attended those workshops. As a condition for participating, each participant is asked to commit to organize at least one IFRS for SMEs train the trainers workshop in their home country. Many have already done so, resulting in enormous leverage to the IASB's training efforts. Table 21.2 presents a detailed outline of the three-day workshop curriculum.

Table 21.3 summarizes the number of slides in each of the 20 PowerPoint presentations used for the workshops (24 classroom hours). Those slides are available for free download from the IASB's website in several languages. The IASB encourages others to use these PowerPoints in their own training programmes.

Table 21.2 Curriculum for a typical IFRS for SMEs train the trainers workshop

	Day 1	*Day 2*	*Day 3*
08:00-10:00	1.1 Details of workshop 1.2 Overview of the IFRS for SMEs: Bullet points covering all of Sections 1-35, including highlight of differences with full IFRSs	2.1 Financial instruments: Section 11 and Section 12 Financial Instruments Section 22 Liabilities and Equity	3.1 Liabilities: Section 20 Leases Section 21 Provisions Section 28 Employee benefits 3.4 Quiz-case discussion on liabilities
10:00-10:30	Tea/coffee break	Tea/coffee break	Tea/coffee break
10:30-11:30	1.3 Scope and concepts: Section 1 Definition of an SME Section 2 Concepts	2.1 Financial instruments continued: Section 12 Financial instruments Portion of Section 30 dealing with foreign currency hedging	3.2 Liabilities, continued: Section 29 Income taxes

(*Continued*)

Table 21.2 Continued

	Day 1	*Day 2*	*Day 3*
11:30-12:30	1.4 Quiz-case discussion on scope and concepts	2.2 Quiz-case discussion on financial instruments	3.3 Quiz-case discussion on income taxes
12:30-13:30	Lunch	Lunch	Lunch
13:30-15:30	1.5 Financial statement presentation: Sections 3 to 8 Financial statement presentation Section 10 Accounting policies, estimates, and errors Section 32 Events after year end Section 33 Related party disclosures Those portions of Section 30 relating to functional currency and presentation currency 1.7(a) Quiz-case discussion on financial statement presentation	2.3 Assets: Section 13 Inventories Section 17 Property, plant, and equipment Section 18 Intangible assets Section 27 Impairment of assets	3.5 Other issues: Section 9 Consolidation Section 19 Business combinations Section 30 Foreign operations 3.8 Quiz-case discussion on consolidation and business combinations
15:30-16:00	Tea/coffee break	Tea/coffee break	Tea/coffee break
16:00-17:00	1.6 Revenue: Section 23 Revenue	2.4 Assets, continued: Section 14 Associates Section 15 Joint ventures Section 16 Investment property	3.6 Other issues: Section 35 Transition to the IFRS for SMEs
17:00-18:00	1.7(b) Quiz-case discussion on revenue	2.5 Quiz-case discussion on assets	3.7 Quiz-case discussion on transition

*These numbers (1.1, 1.2, and so on) represent the PowerPoint files available for download from http://www.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm

Notes: There are no separate workshop sessions covering the following sections of the IFRS for SMEs. However, those sections are covered as part of the overview in the first session of day one.

- Section 24 Government grants
- Section 25 Borrowing costs
- Section 26 Share-based payment
- Section 34 Specialized industries

Table 21.3 PowerPoint slides used in three-day IFRS for SMEs train the trainers workshops

PPT Module	*Topic*	*Number of Slides*
1.1 and 1.2	Details of workshop and overview	83
1.3	Scope and concepts	30
1.4	Quiz on scope and concepts	25
1.5	Financial statement presentation	138
1.6	Revenue	44
1.7a	Quiz on financial statement presentation	58
1.7b	Quiz on revenue	24

(*Continued*)

Table 21.3 Continued

PPT Module	*Topic*	*Number of Slides*
2.1	Financial instruments	74
2.2	Quiz on financial instruments	69
2.3	Assets	98
2.4	Investments	50
2.5	Quiz on assets	42
3.1	Liabilities	95
3.2	Income tax	31
3.3	Quiz on income tax	19
3.4	Quiz on liabilities	36
3.5	Other issues	68
3.6	Transition to IFRS for SMEs	37
3.7	Quiz on transition	22
3.8	Quiz on other issues	32
	TOTAL SLIDES	1,075

All of these PowerPoint slide sets are available for download without charge from www.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm

13.4 SME Implementation Group (SMEIG)

In September 2010, the Trustees of the IFRS Foundation appointed an SME Implementation Group (SMEIG) following a public call for nominations. Its 22 members have two main responsibilities:

- to develop and publish questions and answers as non-mandatory guidance for implementing the IFRS for SMEs; and
- to make recommendations to the IASB regarding possible amendments to the IFRS for SMEs as part of a comprehensive post-implementation review of the standard that got underway in the second half of 2012.

The terms of reference and operating procedures of the SMEIG were approved by the Trustees in January 2010. The process for issuing Q&As is outlined in Box 21.1.

Q&As published by the SMEIG are non-mandatory guidance intended to help those who use the IFRS for SMEs to think about specific accounting questions. The Q&As relate only to the IFRS for SMEs and are not intended to modify in any way the application of full IFRSs. This is made clear in the Q&As.

When the IASB issued the IFRS for SMEs in 2009, it made a commitment to undertake a post-implementation review of the standard. That review got under way in late 2012. The review includes a request for public comments on amendments that should be considered for the IFRS for SMEs. As part of the review, the IASB will also consider incorporating Q&As into the revised IFRS for SMEs. For that reason, it is unlikely that the SMEIG will issue many, if any, additional draft Q&As before the comprehensive review is completed. And the need for any further Q&As on an ongoing basis is being assessed as part of the review.

Box 21.1
SMEIG process for issuing Q&As

The SMEIG follows a rigorous due process in developing Q&As. The process is set out in the *Terms of Reference and Operating Procedures for the SME Implementation Group*, approved by the Trustees of the IFRS Foundation in January 2010. That document is available for download without charge from www.ifrs.org/IFRS+for+SMEs/Implementation+Group.htm

Briefly described, the process involves the following steps:

1. *Identification of issues* Based on issues communicated to the IASB by users of the IFRS for SMEs.
2. *Deciding whether to publish a Q&A* Staff prepare an analysis of each submitted question with a recommendation on whether it should be addressed by a Q&A (based on established criteria set out in the Terms of Reference and Operating Procedures of the SMEIG) and if the recommendation is to develop a Q&A, what the staff's recommended answer would be and why. Staff send their recommendations to members of the SMEIG by email. SMEIG members have 30 days to respond in writing to the staff on (a) whether the SMEIG member agrees with the staff recommendation on the need for a Q&A, and (b) if the recommendation is to publish a Q&A, whether the SMEIG member agrees with the substance of the staff's proposed answer and, if not, what the SMEIG member's answer would be and why.
3. *Reaching a tentative consensus* Staff prepare a summary of the views of SMEIG members. A tentative consensus is reached on the need for a Q&A if a simple majority of SMEIG members agree with the staff recommendation. Similarly, a tentative consensus is reached on the substance of the staff's proposed answer for a Q&A if a simple majority of SMEIG members agree with the staff recommendation. If a tentative consensus is reached that a Q&A is needed and on the substance of the answer, staff prepare a draft Q&A. The draft Q&A will include the SMEIG's reasons for reaching the answer that it did.
4. *The IASB reviews the draft Q&A* Members of the IASB have access to all of the communications within the SMEIG leading to development of the draft Q&A. The draft Q&A is circulated to the members of the IASB for their review. The draft Q&A is released for public comment unless four or more IASB members object within a week of being informed of its completion ('negative clearance').
5. *Public comments invited on the tentative consensus* The draft Q&A is posted on the IASB's website for public comment for a period of 60 days (this has been increased in practice from the 30 days set out in the Terms of Reference and Operating Procedures of the SMEIG due to requests from respondents). Staff prepare an analysis of comments received. Staff make recommendations for changes to the draft Q&A, if any, and send them to SMEIG members with a request for approval of a final Q&A. SMEIG members have 30 days to respond.
6. *Reaching a final consensus* Staff prepare a summary of the views of SMEIG members. A consensus is reached on the final Q&A if a simple majority of SMEIG members agree with the staff recommendation.
7. *The IASB reviews the final Q&A* Members of the IASB have access to all of the communications within the SMEIG leading to development of the final Q&A, and to the public

(*Continued*)

comments on a draft Q&A. When the SMEIG has reached a consensus on a final Q&A, it is circulated to members of the IASB by email. If four or more IASB members object to the consensus within 15 days of being informed of its completion, it is placed on the agenda of a public meeting of the IASB for discussion and a formal vote to approve publication. If no more than three IASB members object to the consensus within 15 days of being informed of its completion, the Q&A is published on the IASB's website. Approved Q&As are informal guidance and not mandatory standards. Therefore, they are published in the name of the SMEIG, not the IASB. This status is noted in each Q&A.

13.5 Free monthly newsletter

In March 2010, the IASB began publishing a free monthly IFRS for SMEs Update newsletter. There are now over 13,000 subscribers. It is a staff summary of news relating to the IFRS for SMEs. Each issue includes an update on translations of the IFRS for SMEs, new Q&As and draft Q&As being developed by the SMEIG, newly posted training materials, upcoming workshops, recent national adoptions, and news about the comprehensive review of the IFRS for SMEs. There are hyperlinks to download materials and to other useful information. Subscribers also receive periodic email alerts about IFRS for SMEs news, such as new Q&As and draft Q&As.

13.6 IFRS for SMEs web pages

The IASB's website includes a separate section dedicated to the IFRS for SMEs. Major sub-sections are:

- Project history;
- Training material;
- Webcasts;
- Q&As;
- IFRS for SMEs Update;
- Presentations about the SMEs;
- Train the trainers workshops;
- Access the IFRS for SMEs;
- SME Implementation Group;
- Non-English resources;
- Comprehensive Review 2012–14; and
- Guidance for micro-sized entities.

13.7 Executive briefing booklet

The IASB has published an eight-page executive briefing booklet entitled *A Guide to the IFRS for SMEs*. It is written for lenders, creditors, owner-managers, and others who use SME financial statements. In non-technical language, it covers:

- What is the IFRS for SMEs?
- Who is it aimed at?
- How does it differ from full IFRSs?

- Who is planning to use it?
- Implementation support from the IASB.

It is updated periodically and is available for free download in PDF format and in printed form.

13.8 Downloadable presentations

The IASB's website includes many PowerPoint presentations about the IFRS for SMEs, of various lengths and in multiple languages, which are available without charge for use by others who are making presentations about the IFRS for SMEs.

13.9 XBRL

The IFRS Taxonomy is the representation of IFRSs in XBRL – (eXtensible Business Reporting Language). XBRL was developed to provide a common, electronic format for business and financial reporting. The IFRS Taxonomy covers both full IFRSs and the IFRS for SMEs. The Taxonomy contains tags for all of the disclosures in the IFRS for SMEs.

13.10 Links to download IFRS for SMEs materials for free

In addition to making the standard itself available for free, a great deal of information about the IFRS for SMEs is available without charge for download from the IASB website. Here are some links:

- IFRS for SMEs web pages on IASB's website: www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm
- IFRS for SMEs (full standard in English and translations): http://go.ifrs.org/IFRSforSMEs
- Training materials (35 modules, multiple languages): http://go.ifrs.org/smetraining
- PowerPoint training modules (20 PPTs, multiple languages): http://go.ifrs.org/trainingppts
- Board and staff presentations (multiple languages): http://go.ifrs.org/presentations
- IFRS for SMEs Update newsletter: http://go.ifrs.org/smeupdate
- SMEIG Q&As and comprehensive review: http://go.ifrs.org/smeig
- Executive briefing booklet: www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm
- XBRL: www.ifrs.org/XBRL/IFRS+Taxonomy/IFRS+Taxonomy.htm

14. Plans for updating the IFRS for SMEs

When the IASB issued the IFRS for SMEs in mid-2009, it stated that it planned to consider amendments to the IFRS for SMEs approximately once every three years. The initial review is a comprehensive review of the standard that will enable the IASB to assess the first two years' experience in implementing the standard (2010 and 2011). The review got under way in the second half of 2012. The SMEIG is taking the lead in the review. The SMEIG will make recommendations to the IASB on whether to amend the IFRS for SMEs:

- to incorporate issues that were addressed in the Q&As;
- to reflect other implementation issues that were not addressed by Q&As; and
- for new and amended IFRSs that were approved since the IFRS for SMEs was issued.

Table 21.4 shows the estimated timetable for the review.

Table 21.4 Estimated timetable for the review of IFRS for SMEs

2H 2012	Review gets underway. SMEIG prepares an invitation to comment. The public are invited to make recommendations on possible amendments and encouraged to give their reasoning.
1H 2013	The SMEIG reviews responses to the invitation to comment and makes recommendations to the Board on possible amendments.
1H 2013	The Board deliberates amendments and develops and approves an Exposure Draft (ED) of proposals.
2H 2013	The SMEIG reviews responses to the ED and makes recommendations to the Board.
2H 2013	The Board deliberates amendments to proposals in the ED and agrees on final revisions to IFRS for SMEs.
2H 2013 or 1H 2014	The Board publishes final revisions to the IFRS for SMEs.
2014 or, more likely, 2015	Effective date of revisions.

Even before the review had begun, users of the IFRS for SMEs had called to the IASB's attention a small number of implementation issues. Those included suggestions to:

- revise the principles in Section 29 *Income Tax* to be the same as IAS 12. Currently, Section 29 has fewer exemptions than IAS 12, and it does not reflect a recent amendment to IAS 12 that contains a presumption that recovery of the carrying amount of an investment property measured at fair value through profit and loss is through sale of the asset;
- allow revaluation of property, plant and equipment (otherwise debt seems excessive);
- allow capitalization of development cost; and
- allow capitalization of borrowing cost.

It is not a 'given' that significant changes will be made to the IFRS for SMEs as a result of the comprehensive triennial reviews. When it was issued, the IFRS for SMEs reflected many simplifications of the principles in full IFRSs for recognizing and measuring assets, liabilities, income, and expenses, as well as substantial disclosure reductions. The IASB does not intend that changes to full IFRSs adopted after the IFRS for SMEs were issued will automatically be 'pushed down' to the IFRS for SMEs. Those changes will be considered on their merits in the context of the needs and capabilities of small and medium-sized companies.

15. Suitability of the IFRS for SMEs for micro entities

The Board said – and it is my personal view as well – that the IFRS for SMEs is suitable for any entity without public accountability (regardless of size) that is required by law or regulation, or chooses, to prepare general purpose financial statements (GPFS). GPFS provide information to lenders, creditors, investors, and other financial statement users who are external to the company. They help bring about the efficient allocation and pricing of capital in an economy. GPFS are described in Section 9.1 above.

It is not the IASB that mandates which companies must prepare GPFS. That decision is made by local legislators and regulators based on their assessment of the public interest in having good financial information available that can be used for sound investing, lending, and credit decisions and in the interest of economic development. Micro entities are tiny private companies with fewer than say, five or ten employees. Even before thinking about whether the IFRS for SMEs is suitable for such entities, a jurisdiction must address and resolve an even more fundamental question: whether those companies should be required by law or regulation to prepare GPFS at all. Answering that question involves balancing the societal benefit of having good financial information about small companies available publicly with the costs imposed on small companies to provide that information. That is a government decision, not the IASB's.

If a parliament or a regulator has demanded that micro-sized companies prepare GPFS, the next decision is which standards should be followed in preparing the GPFS. Possibilities include full IFRSs or full national GAAP applicable to publicly traded companies, a simple local standard for SMEs, the 'SMEGA Level 3' standard adopted by UNCTAD,[1] or the IFRS for SMEs. In reaching that decision, a jurisdiction must bear in mind that a huge issue for micro-sized companies is access to capital. Companies of that size consistently lament their inability to borrow money even though their products or services are selling well and they have lots of opportunities to grow. The banks and other capital providers, on the other hand, say – to put it bluntly – we don't understand or have confidence in the financial statements. So there is a big role for the IFRS for SMEs in filling this information gap, even for micros.

Some micro-sized companies may look at the 230-page IFRS for SMEs and find it daunting. Actually, for most micros, a good number of the sections of the standard may have no relevance at all. And, even in those sections that do have relevance, some of the specific principles or topics may not affect most micros. Even so, the IASB is currently developing simplified guidance to assist a micro-sized entity in applying the IFRS for SMEs.

16. Use of the IFRS for SMEs in emerging economies

The previous section of this chapter discusses the suitability of the IFRS for SMEs for micro-sized entities. The issues regarding its suitability in emerging economies are similar:

- In many emerging economies, full IFRSs (and national equivalents of full IFRSs) are being pushed down to all small entities through national adoption or convergence.
- Training and enforcement of full IFRSs and national equivalents are inadequate.
- The IFRS for SMEs is less complex solution tailored to meet the needs of lenders and creditors who provide capital to SMEs.
- Fair value measurements under full IFRSs are a particular concern in emerging economies. The IFRS for SMEs requires considerably fewer fair value measurements than full IFRSs.

The IASB and the IFRS Foundation have recognized the special needs of emerging economies by providing a wide range of implementation support including many regional training workshops most of which have been conducted in emerging economies. Better financial reporting should improve the ability of small companies in emerging economies to gain access to finance. This, in turn, leads to more successful businesses, more job creation, and reduction in poverty.

17. Use of the IFRS for SMEs by not-for-profit entities and government-owned SMEs

Are not-for-profit entities permitted to use the IFRS for SMEs? What about government-owned SMEs? The IFRS for SMEs does not prohibit not-for-profit SMEs or government-owned

SMEs from using the standard. Receiving donations or tax payments from the public does not make an entity publicly accountable provided that those assets are not held to directly benefit the specific donor or taxpayer. Generally this is not the case, and money donated or paid immediately becomes an asset of the non-profit SME or government-owned SME to be employed in its primary business (e.g. the charitable activities or the provision of public services).

However, a not-for-profit SME or government-owned SME that is considering using the IFRS for SMEs must bear in mind that the standard does not provide any specific guidance on how to apply the principles to some issues important to their financial reporting. These issues include:

- recognizing revenue from restricted contributions;
- recognizing revenue from tax assessments and payments;
- presenting the operating statement; and
- recognizing and measuring impairment and consumption of some assets such as museum collections, parks, and public infrastructure.

18. Personal 'regrets'

As the principal author of the IFRS for SMEs, I have occasionally been asked whether there are aspects of the original standard I would change if the content of the IFRS for SMEs had been solely my own decision, rather than that of the IASB. The IFRS for SMEs was the collective effort of the Board and the staff, not one individual. I am quite satisfied with how the standard turned out. And the comprehensive review of the standard currently under way will ferret out potential tweaks to improve the standard. Still, if we had had more time before issuing the IFRS for SMEs in July 2009, there are two matters that I might have wanted to discuss further: income taxes and eligibility.

The most difficult topic on which to get Board agreement was income tax. The standard was ready to go into production (typesetting, and so forth) when the Board was still debating Section 29 in April 2009. Our constituents were also divided. The staff recommendation at several stages in the project was for a taxes payable approach (i.e. no deferred taxes), with appropriate disclosure. That was not adopted. The Board also gave serious consideration to a timing difference approach (which focuses on the differences between profit or loss and taxable profit rather than on differences between asset and liability carrying amounts and tax bases). But we ended up with a full temporary difference approach pretty close to the one in IAS 12. Moreover, the temporary difference approach we ended up with was the one proposed in the IASB's March 2009 exposure draft *Income Taxes* that the Board has subsequently decided to abandon. So if I could make one change to the standard it would be to rethink accounting for income taxes. Still, for most SMEs, recognition of deferred taxes seems to be straightforward. The Board has had few implementation questions so far.

There's another area where I would have seriously considered a change – though I think most of my colleagues on the IASB would disagree. I would leave it up to each individual jurisdiction to decide whether small publicly traded companies can use the IFRS for SMEs. While the IFRS for SMEs is not designed for established public securities markets, the reality in many smaller countries is that the quality of implementation of full IFRSs by smaller listed companies leaves something to be desired. And, often, enforcement mechanisms are not in place. If the legislators or regulators in such a country believe that the investor's interest and the public interest are best served by allowing small listed companies to use the IFRS for SMEs, I would leave the decision in their hands.

19. Assessing the IFRS for SMEs

In addition to the IASB, others want to assess the IFRS for SMEs from a variety of perspectives, including regulators, standard-setters, and educators. In that regard, the IFRS for SMEs offers many opportunities for study. Here are some research ideas:

- Analyse the nature and magnitude of the changes to SMEs' financial statements on adoption of the IFRS for SMEs:
  - identify which financial statement items were the main ones affected;
  - the overall effect on income and equity; and
  - the different effects on different types of companies, for example based on industry or size or geography.
- Analyse which accounting policy choices were made where options are available in the IFRS for SMEs, and why.
- If SMEs had a choice of some other accounting framework instead of the IFRS for SMEs (e.g. full IFRS or local GAAP), examine why they chose the IFRS for SMEs.
- Analyse difficulties encountered in switching from previous GAAP to IFRS for SMEs.
- Analyse the ways SMEs planned and executed the transition, costs involved, extent to which they relied on outside help (e.g. from auditors), and lessons learned.
- Identify whether accounting quality has improved since adoption of the IFRS for SMEs.
- Analyse reactions of bank lenders and rating agencies to the new type of financial information they are receiving.
- Explore whether cost of debt financing has decreased since adoption of the IFRS for SMEs.

20. In conclusion

The general purpose financial statements of SMEs are used in making financing decisions by lenders, vendors, customers, venture capitalists, and other outside investors, as well as by rating agencies, governments, and others external to the entity. That is why there is a public interest in sound and transparent financial reporting by small companies. And there is a payback for the small company: improved access to capital.

The IASB issued the IFRS for SMEs with confidence that it will result in better quality reporting by small companies without undue burden, meet the needs of their lenders and creditors, and be understood across borders. If capital providers understand and have confidence in the financial figures, an SME's ability to obtain the capital it needs improves, and its cost of capital is reduced. In addition, where customers, suppliers, and others have greater confidence to do business with the SME, there will be a positive impact on the company's operations. Ultimately, this will lead to overall benefits of the economy in which the SME operates.

Notes

1 SMEGA Level 3 is titled *Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises*. It was published by the United Nations Conference on Trade and Development (UNCTAD) in 2009 and contains 9 pages of accounting standards and 11 pages of model financial statements. The financial statements prepared using SMEGA Level 3 are not general purpose financial statements. UNCTAD's website is www.unctad.org.