



International Accounting Standards Board®

Press Release

15 February 2007

IASB publishes draft IFRS for SMEs

The International Accounting Standards Board (IASB) is today publishing for public comment the Exposure Draft of its *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*.

The aim of the proposed standard is to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies and are based on full International Financial Reporting Standards (IFRSs), developed primarily for listed companies. By removing choices for accounting treatment, eliminating topics that are not generally relevant to SMEs and simplifying methods for recognition and measurement, the resulting draft standard reduces the volume of accounting guidance applicable to SMEs by more than 85 per cent when compared with the full set of IFRSs. As a result, the Exposure Draft offers a workable, self-contained set of accounting standards that would allow investors for the first time to compare SMEs' financial performance across international boundaries on a like for like basis.

In order to assist companies in preparing accounts based on the proposed *IFRS for SMEs*, the requirements of IFRSs have been simplified and redrafted using plain English where possible. However, SMEs that decide to upgrade to using full IFRSs would find the transition eased because both sets of standards are based on the same underlying principles.

Introducing the Exposure Draft, Sir David Tweedie, IASB Chairman, said:

Our goal has been to produce a standard for use by smaller and unlisted companies that offers the comparability of full IFRSs while reducing the burden on the preparing company. When completed, the SME standard will make the accounting requirements more accessible to smaller preparers in both developed and emerging markets. With this publication, we are now actively seeking the views of companies,

banks, the audit profession, and other interested parties as part of a broad consultation to see if we've taken out too much or not enough or if we've got it about right.

The adoption of the *IFRSs for SMEs* will be a matter for each country or adopting jurisdiction to decide. For example, the EU requires listed companies to comply with International Financial Reporting Standards (IFRSs), but will leave it to Member States to decide which standards SMEs should follow. The IASB proposes that listed companies, however small, would not be eligible to use the *IFRS for SMEs*.

The Exposure Draft is available for *eIFRS* subscribers from today and will be freely available on the Website from 26 February 2007. The IASB invites comments on the Exposure Draft by 1 October 2007. As a step to facilitate broader consultation, the IASB will for the first time publish a proposed standard in translation. The Exposure Draft will be published in French, German and Spanish in April 2007: see the IASB Website for more details.

Those wishing to subscribe to *eIFRSs* should visit the online shop at www.iasb.org or contact:

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Printed copies of the Exposure Draft of the *International Financial Reporting Standard for Small and Medium-sized Entities* (three booklet set ISBN 978-1-905590-16-2) will be available shortly, at £18.00, from the IASC Foundation Publications Department.

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Notes to Editors

About the Exposure Draft (ED)

Which entities could use the proposed IFRS for SMEs?

The IFRS for SMEs is intended for entities that do not have public accountability. An entity has public accountability (and therefore should use full IFRSs) if:

- it has issued debt or equity securities in a public market; or
- it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund, or investment bank.

Modifications of full IFRSs reflected in the ED

The draft IFRS for SMEs reflects three kinds of modifications of the principles in full IFRSs based on the needs of users of SMEs' financial statements and cost-benefit considerations:

1. ***Topics omitted.*** IFRS topics not relevant to typical SMEs are omitted, with cross-references to the IFRS if needed. These are:

- general price-level adjusted reporting in a hyperinflationary environment.
- equity-settled share-based payment (the computational details are in IFRS 2 *Share-based Payment*).
- determining the fair value of agricultural assets (look to IAS 41 *Agriculture*, but the Board also proposes to reduce the use of fair value for agricultural SMEs).
- extractive industries (look to IFRS 6 *Exploration for and Evaluation of Mineral Resources*).
- interim reporting (look to IAS 34 *Interim Financial Reporting*).
- lessor accounting finance leases (finance lessors are likely to be financial institutions who would be ineligible to use the *IFRS for SMEs* anyway).
- Recoverable amount of goodwill (SMEs would test goodwill for impairment much less frequently than under IAS 38 *Intangible Assets*, but if necessary to do such a test would look to the calculation guidance in IAS 38).
- earnings per share and segment reporting, which are not required for SMEs, and insurance contracts (insurers would not be eligible to use the *IFRS for SMEs*).

2. **Only the simpler option included.** Where full IFRSs provide an accounting policy choice, only the simpler option is in the *IFRS for SMEs*. SMEs are permitted to use the other option by cross-reference to the relevant IFRS. The simpler options selected are:

- the cost-depreciation model for investment property (fair value through profit or loss is permitted by reference to IAS 40 *Investment Property*).
- the cost-amortisation-impairment model for property, plant and equipment and intangibles (the revaluation model is allowed by references to IAS 16 *Property, Plant and Equipment* and IAS 38).
- treating borrowing costs as expense (capitalisation allowed by reference to IAS 23 *Borrowing Costs*).
- indirect method for reporting operating cash flows (the direct method is allowed by reference to IAS 7 *Cash Flow Statements*).
- one method for all grants (or SMEs can use any of the alternatives in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*).

In adopting the *IFRS for SMEs*, an individual jurisdiction could decide not to allow the option that is cross-referenced to the full IFRS.

3. **Recognition and measurement simplifications.** Here are some examples:

- financial instruments:
 - two categories of financial assets rather than four. This means no need to deal with all of the ‘intent-driven’ held-to-maturity rules or related ‘tainting’, no need for an available-for-sale option, and many other simplifications.
 - a clear and simple principle for derecognition—if the transferor has any significant continuing involvement, do not derecognise. The complex ‘pass-through testing’ and ‘control retention testing’ of IAS 39 *Financial Instruments: Recognition and Measurement* are avoided.
 - much simplified hedge accounting.
- goodwill impairment—an indicator approach rather than mandatory annual impairment calculations.
- recognise all research and development costs as expense (IAS 38 would require capitalisation after commercial viability has been assessed).

- the cost method for associates and joint ventures (rather than the equity method or proportionate consolidation).
- less fair value for agriculture—only if ‘readily determinable without undue cost or effort’.
- defined benefit plans—a principle approach rather than the detailed calculation and deferral rules of IAS 19 *Employee Benefits*. Complex ‘corridor approach’ omitted.
- share-based payment—intrinsic value method.
- finance leases—simplified measurement of lessee’s rights and obligations.
- first-time adoption—less prior period data would have to be restated than under IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Frequency of updating the *IFRS for SMEs*

The Board intends to update the *IFRS for SMEs* approximately once every two years via an omnibus exposure draft.

Organisation of the ED

The ED is published in three documents—the draft *IFRS for SMEs*, implementation guidance (consisting of illustrative financial statements and a disclosure checklist), and a basis for conclusions. The *IFRS for SMEs* is organised topically, rather than in IAS/IFRS statement number sequence. It has 38 sections and a glossary.

Next steps

- The comment deadline on the Exposure Draft is 1 October 2007.
- During the exposure period the Board will conduct round-table meetings with SMEs and small firms of auditors to discuss the proposals. The Board will also conduct field tests and/or field visits on the proposals in the ED.
- The standard is expected in mid-2008.
- It would take effect according to decisions in each jurisdiction that adopts the *IFRS for SMEs*.

About the IASB

The International Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major

accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB.

The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.