



Nazatul Izma

*Dr. Paul Pacter (left) and
Michael Wells*

IFRS for SMEs

GIVEN THAT SMALL AND MEDIUM ENTERPRISES (SMEs) ARE THE LIFEBLOOD OF BUSINESS, IT IS HARDLY SURPRISING THAT INTEREST IN THE INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) FOR SMEs IS HIGH.

Over 95% of all businesses in the world are small and medium enterprises, so interest in the International Financial Reporting Standard for Small and Medium Enterprises (IFRS for SMEs) is not surprising.

To ensure that guidance on the standard is properly disseminated, the Confederation of Asian & Pacific Accountants (CAPA), the organisation representing all professional accounting organisations in the region, including the Malaysian Institute of Accountants (MIA), recently held a major international Train-the-Trainer workshop on IFRS for SMEs in Kuala Lumpur. Over 50 leading professional accountancy trainers from 11 countries across Asia-

Pacific were in Kuala Lumpur from 20-22 January and were personally trained by Dr. Paul Pacter, Chairman of the SME Implementation Group and Director of Standards for SMEs, International Accounting Standards Board (IASB) and Michael Wells, Director of IFRS Education Initiative of the International Accounting Standards Committee Foundation (IASCF)

“These are the people responsible for the Standards, so to have them lead the training is a real coup”, said Brian Blood, Chief Executive of CAPA. Blood added that the CAPA workshop was “a real milestone for the profession in the region”. First, it was the first time in a decade that a Train-the-Trainer programme of this magnitude had been held in the region.

Second, the initiative has the support of the Asian Development Bank and attracted many participants from developing and emerging economies, attesting to the deep interest in the standards. Third, this is the first Train-the-Trainer workshop in the world to be presented on the recently introduced IFRS for SMEs.

Training and guidance is especially important for SMEs, which typically lack the resources available to public-listed companies in understanding and implementing new accounting and financial reporting standards. Historically, standards were written for PLCs to meet the requirements of capital markets. Therefore, the people involved in the IASB’s due process have been from PLCs, as well as the Big 4. “IFRS can be a culture shock for small

companies, which comprise about 99% of companies in the world. Therefore, we felt obligated to help companies in implementing this standard for SMEs," explained Pacter, who wrote the IFRS for SMEs which was issued in July 2009.

3,000 items in the disclosure checklist, while IFRS for SMEs has roughly 300 disclosures. What is kept includes disclosures about short-term cash flow, liquidity, solvency, measurement uncertainties, and accounting policy choices. What was

on financial statements and make it easier for vendors to evaluate the finances of buyers and improve access to foreign loans and suppliers. It will also improve their access to equity capital from non-management investors and foreign venture capital," added Pacter.

Knowing these benefits, should the standard be imposed on all small companies, regardless of size? Currently, decisions on which entities are required or permitted to use the IFRS for SMEs rest with legislative and regulatory authorities and standard-setters in individual jurisdictions. Mohammad Faiz Azmi, MASB Chairman, has indicated at forums on convergence that Malaysia will not require the IFRS for SMEs since it would be taxing for small mom-and-pop shops to adopt fair value accounting, albeit a watered-down version. Non-adoption of IFRS for SMEs also does not imply that a jurisdiction is not IFRS-compliant. Malaysia intends to be fully IFRS-compliant by 2012.

Widespread implementation of full IFRS along with the SME standard begets another question: what will happen to national standard-setters, such as the Malaysian Accounting Standards Board (MASB)? Pacter foresees a huge role for national standard-setters as a major participant in due process as accounting standards continue to evolve. "They will provide guidance for implementation and identify implementation challenges," he said.

There will also be major implications for talent and accountancy education and training with the implementation of IFRS for SMEs. Full IFRS would be more burdensome since it would be challenging for education systems to deliver enough trained accountants. The IFRS for SMEs will fill the gap between PLCs and micro-companies, and will require more accounting technicians, which is an area already being targeted by developing countries.

Taxation systems too will have to be revised to cope with the new IFRS for SMEs once implemented, to avoid further burdening small businesses with compliance and documentation issues arising from non-IFRS compliant tax laws. ■



Brian Blood

"The Standard was developed to assist these businesses report high quality financial information in a consistent manner, whilst acknowledging the need to be not overly complex and hence cost effective."

Brian Blood, Chief Executive
Confederation of Asian & Pacific Accountants (CAPA)

Critics argue that the IFRS for SMEs is a stripped-down version of regular IFRS designed for PLCs and other public-interest entities, and thus unsuitable for SME needs. In its defence, Pacter describes the Standard as "tailored for SMEs, designed to meet user needs for cash flow information, costs and SME capabilities. It is simplified IFRSs, but built on an IFRS foundation. The Standard is completely standalone. The only 'fallback' option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs."

How was the Standard simplified? According to Pacter, some topics in IFRSs were omitted if irrelevant to private entities. Where IFRSs have options, only the simpler option was included. There were recognition and measurement simplifications, since this is the bane of fair value accounting, as well as reduced disclosures and simplified drafting.

"The Standard was developed to assist these businesses report high quality financial information in a consistent manner, whilst acknowledging the need to be not overly complex and hence cost effective," Blood agreed. As a result, the IFRS for SMEs weighs in at just 230 pages compared to 2,855 pages in full IFRS. Disclosure requirements have also been simplified. Full IFRS lists more than

dropped includes disaggregations and public capital market disclosures.

Entities eligible to use the Standard include any entity without public accountability, meaning securities which are not publicly traded and non-financial institutions. Pacter estimated that over 99% of private entities around the world are eligible to use the Standard. Subsidiaries of listed companies can use IFRS for SMEs if the subsidiary itself is not listed. As of mid-January, Pacter estimated that over 40 jurisdictions already planned to require or permit the Standard for entities that do not have public accountability. In comparison, full IFRS are being required or permitted for listed companies in 117 jurisdictions and unlisted companies in 92 jurisdictions. Once adopted or permitted, the IFRS for SMEs will ease the burden of financial reporting for smaller entities in jurisdictions requiring full IFRS of full national GAAP.

A key benefit of the Standard concerns lending. SMEs have been hard-hit by the credit crunch as banks and other financial institutions unnerved by the global recession tightened lending. Enhancing and standardising the quality of SME financial reporting will improve their access to credit and enable these smaller entities to borrow cross-border. "The Standard will support lending based