

Why was there a need for an IFRS for SMEs?

1. Full IFRS is primarily directed to serve the needs of sophisticated capital market participants and its application is complex
2. Secondly there is the cost factor: application of full IFRS to SMEs can be very costly
3. IFRS for SMEs attempts to meet the users' needs while balancing the costs and benefits to preparers
4. For a number of years there has been a strong demand globally for an IFRS for SMEs
5. In 2000, the outgoing IASC remarked that 'a demand exists for a special version of IAS for Small Enterprises' and soon after the IASB took over in 2001 it began a project to develop accounting standards for SMEs
6. A number of public meetings were held and led to the development of a Discussion Paper in June 2004
7. Following a number of public round tables, an Exposure Draft was issued in February 2007
8. Then came the IFRS in July 2009

What's the difference between IFRS for SMEs & full IFRS?

1. First of all, IFRS for SMEs is a stand-alone document. It is not part of full IFRS

2. It is far shorter than full IFRS, written in a more accessible style, with many significant relaxations in the accounting requirements and greatly reduced disclosure provisions. To give you an idea, IFRS for SMEs is 231 pages long compared to the 2,000 pages or so of full IFRS
3. IFRS for SMEs is written for those who have little or no knowledge of full IFRS but have a reasonable understanding of basic accounting concepts and terminology
4. Omitted topics: IFRS topics not relevant to a typical SME are omitted from the standard
5. Disallowed options: for a number of those occasions in which full IFRS provides an accounting policy choice, only the simpler option is included in IFRS for SMEs
6. Recognition, measurement simplifications, and disclosure reductions: IFRS for SMEs makes certain simplifications to the recognition and measurement requirements in full IFRS. In addition, the disclosure requirements in IFRS for SMEs are substantially reduced when compared with those in full IFRS
7. A statement of changes in equity may not be required under IFRS for SMEs
8. It is expected that IFRS for SMEs will affect 95% of entities worldwide
9. In addition, to further reduce the reporting burden for SMEs, the IASB will limit revisions to the IFRS to once every 3 years

Which entities can apply IFRS for SMEs?

1. That will depend on each jurisdiction. But the determining criteria set by the IFRS is that it will be applicable to entities that do not have **public accountability**
2. Public accountability further applies to:
 - a. Entities whose debt/equity instruments are traded in a public market
 - b. Entities which hold assets in a fiduciary capacity, e.g. a bank, insurance company, pension fund, etc.

What complexities are foreseen with the implementation of IFRS for SMEs?

1. As mentioned earlier there is definition of public accountability. In Mauritius we already have the concept of Public Interest Entities (PIEs) which will need to be reconciled somehow with 'public accountability'
2. Then there are subsidiaries whose parents use full IFRS. The use of IFRS for SMEs for these subsidiaries will not be useful and adequate for preparing consolidation accounts. The reverse is also true: what about subsidiaries that use full IFRS but whose parent use IFRS for SMEs? What about a GBC1 which has investments in listed entities? These are questions which the profession and government will need to address.
3. Because the implementation will be left to each country, there will be a problem of comparability of accounting

standards should some countries not implement IFRS for SMEs or whose definition of public accountability differs.

What happens where a particular transaction is not addressed in IFRS for SMEs?

In such a case management is expected to use its judgement to determine its accounting policy. It may refer to full IFRS and apply its accounting policy if it so wishes but it is not mandatory for it to do so.

Would it be feasible for extremely large privately held businesses to be regarded as SMEs under the proposed standard?

Yes. This is the philosophy of the IFRS for SMEs. The question is how come a listed company with 25 employees and a fairly narrow shareholder base can be regarded as of greater public accountability than a privately held business with 1,000 employees and creditors of hundreds of millions. In the latter case the livelihoods of hundreds of people will be dependent upon the financial well being of the SME.

But if we think of it, the issue is not so straight forward. Why did the company list in the first place? To be able to release equity capital into the investor market, for which the underlying philosophy of IFRS is relevant, rather than that for IFRS for SMEs,

which is not focused on an investor's buy/sell/hold decision. Under current regulations, those who choose to register their company as a plc, even though they intend the shares to be held by only a few persons, are subject to greater burdens than for private companies.

So the title 'IFRS for SMEs' is a misnomer?

Absolutely. There has been a lot of debate whether 'IFRS for Private Entities' may have been a better description.

The title of 'IFRS for SMEs' is not helpful to us in Mauritius either where we are used to SMEs referring to size-based criteria. *(In Mauritius, we already have 'public interest entities' (PIEs), 'small private companies' as defined by the Companies Act 2001 and 'small and medium enterprise' as per SEHDA).* However, the title had to be acceptable internationally and so 'IFRS for SMEs' it is.

When is the effective date for IFRS for SMEs?

The IFRS for SMEs is effective since its release in July 2009. However, the IASB has made it clear they consider the application of the IFRS for SMEs standard to be a jurisdictional issue.

In Mauritius, we still need to define 'public accountability', etc.

What next to implement IFRS for SMEs in Mauritius?

The different stakeholders (i.e. MIPA, FRC, Registrar of Companies, preparers and auditors of financial statements, etc.) need to make appropriate recommendations to the government.

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