



FREQUENTLY ASKED QUESTIONS ('FAQs')

IFRS FOR SMEs

1. What is the International Financial Reporting Standard for Small- and Medium-Sized Entities ("IFRS for SMEs")?

In July 2009 the International Accounting Standards Board ('IASB') published the *International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)*.

IFRS for SMEs is a complete and comprehensive standard, and accordingly contains much or most of the vital guidance provided by the full IFRS. For example, it defines the qualities that are needed for IFRS-compliant financial reporting, the elements of financial statements, the required minimum captions in the required full set of financial statements, the mandate for comparative reporting, amongst others.

The IFRS for SMEs aims at meeting the needs of private company financial reporting users and easing the financial reporting burden on private companies

2. Why has the IASB come up with another IFRS based framework?

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. In establishing standards for the form and content of general purpose financial statements, the needs of users of financial statements are paramount.

It is acknowledged that the types and needs of users of SME financial statements are different from the types and needs of users of public company financial statements and other entities that would likely use full IFRS.

While the use of full IFRS has been designed to meet the needs of equity investors in companies in public capital markets, users of the SMEs financial statements are more interested on shorter-term cash flows, liquidity, balance sheet strength, and interest coverage and solvency issues.

Full IFRS is becoming more detailed and elaborate guidance that are not directly relevant to the users on the SMEs financial statements and as such a burden on SME preparers. A more cost and benefit approach has been considered.

It is recognised that a significant need existed for an accounting and financial reporting standard for SMEs that would meet the needs of the users of financial statements while balancing the costs and benefits from a preparer perspective. IFRS for SMEs has been designed to meet that need.

3. What is meant by small- and medium-sized entities ("SMEs")?

The term small and medium-sized entities as used by the IASB is defined and explained in Section 1 Small and Medium-sized Entities of IFRS for SMEs standards.

IASB's definition of small and medium sized entities is not based on quantifiable criteria.

IFRS for SMEs is intended to be used by SMEs, which are entities that publish general purpose financial statements for external users and do not have public accountability.

4. What is public accountability?

According to the IASB, an entity has public accountability if:

- a) it files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or
- b) it holds assets in a fiduciary capacity for a broad group of outsiders, as one of its primary businesses.

Regardless of size, entities whose securities are traded in a public market should follow full IFRSs.

In most cases, the primary business of banks, insurance companies, securities brokers/dealers, pension funds, mutual funds and investment banks is to hold and manage financial resources entrusted to them by a broad group of clients, customers or members who are not involved in the management of the entities. Because such entities act in a public fiduciary capacity, they are publicly accountable.

5. What if the entity holds assets in a fiduciary capacity incidental to their primary business?

Our interpretation is that it is not the IASB's intention to exclude entities that hold assets in a fiduciary capacity for reasons incidental to their primary business (for example, travel agents, schools and utilities) from utilizing IFRS for SMEs.

6. What are the key differences between IFRS and IFRS for SMEs?

Compared to the full IFRS, the aggregate length of the standards, in terms of number of words, has been reduced by more than 90%. This was achieved by eliminating topics deemed to not be generally relevant to SMEs, by eliminating certain choices of accounting treatments, and by simplifying methods for recognition and measurement. These three sets of modifications to the content of the full IFRS respond to both the perceived needs of users of SMEs' financial statements and to cost-benefit concerns.

Full IFRS	IFRS for SMEs
Standards numbered as published	Organised by topic
Almost 3,000 pages	Under 300 pages
Around 3,000 disclosure points	About 300 disclosure points
Updates almost monthly	Updated every 2 or 3 years
Some topics in full IFRS are omitted because they are not considered relevant to SMEs eg - segmental reporting, assets held for sale and earnings per share.	
Some accounting policy treatments in full IFRS are not allowed because a simplified method is available to SMEs.	

7. Why is the Commission recognising "IFRS for SMEs" under Section 30 (4) of the Financial Services Act ("the Act")?

The Commission has received several requests to consider "IFRS for SMEs" as an internationally recognised accounting standards under Section 30 (4) of the Financial Services Act ("the Act").

The Companies Act 2001 provides for financial statements of public and private companies to be prepared in accordance with and comply with the International Accounting Standards and to comply with any requirement which apply to the company's financial statements under any other enactment.

In addition, the Companies Act provides that a private company, other than a small private company, or public company, which does not qualify as a public interest entity as defined in the Financial Reporting Act may prepare its financial statements in accordance with the International Financial Reporting Standards for SMEs, issued by the International Accounting Standards Board.

After examination of the requests received, the Commission is providing the same flexibility afforded to non-GBC 1 licence holder to a GBC 1 Licence-holder to submit audited financial statements prepared in accordance with IFRS for SMEs, subject to the GBC 1 licence holder meeting certain specified conditions.

8. Can all GBC 1 prepare its financial statements under the IFRS for SMEs?

No. A GBC 1 licensed and carrying out financial services or financial business activities as governed by Relevant Acts are not eligible to prepare Financial Statements under IFRS for SMEs.

The Relevant Acts amongst others are:

- Insurance Act 2005
- Private Pension Schemes Act 2012
- Protected Cell Companies Act
- Securities Act 2005
- Securities (Central Depository, Clearing and Settlement) Act
- Trusts Act 2001

Preparers of Financial Statements need to refer to the Section 2 of the Financial Services Act 2007 for the definition of financial services.

9. How should the financial statements be described?

An entity which have no public accountability and which elects to report in conformity with IFRS for SMEs must make an “explicit and unreserved” declaration to that effect in the financial statements.

The wordings that may be used are: “These financial statements have been prepared in accordance with the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities issued by the International Accounting Standards Board”.

If this representation is made, the entity must comply fully with all relevant requirements in the standard.

10. What if the financial statements of a publicly accountable entity assert that it is in conformance with the IFRS for SMEs?

A publicly accountable entity’s financial statements shall not be described as conforming to the IFRS for SMEs.

11. Should prior authorization of the Commission be sought?

No. However, an entity may be required from time to time to demonstrate to the satisfaction of the Commission that it is eligible to adopt IFRS for SMEs.

12. Should entities demonstrate their eligibility to the Commission?

Each entity should assess their eligibility to use the IFRS for SMEs on the basis of their own circumstances, business models and the nature and complexity of their transactions.

Any entity licensed by the Commission and which chooses to use IFRS for SME may be required to demonstrate to the Commission its eligibility to use IFRS for SME.

On the first year of adoption of the IFRS for SMEs, an entity may wish to submit a statement demonstrating its eligibility at the time of submitting its financial statements.

13. Can entities change from full IFRS to IFRS for SMEs?

Yes, if the entity meets the specified conditions to use IFRS for SMEs. An entity can refer to Section 35 Transition to IFRS for SMEs.

14. Can reference be made to the full IFRS for specific transactions?

Some topics which have been deemed not relevant to SMEs have been eliminated in IFRS for SMEs. Certain choices of accounting treatments, methods for recognition and measurement have been modified.

As such, IFRS for SME is a stand-alone document. An entity that would qualify for use of IFRS for SMEs must therefore make a decision to use full IFRS or IFRS for SME exclusively except where permitted (eg Paragraph 11.2 of IFRS for SME standard).

15. From which date can an entity adopt IFRS for SMEs?

IFRS for SMEs can be applied for period beginning on or after 1 January 2015. However earlier adoption is allowed.

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