



IFRS for SMEs/Private Companies

Webinar
September 2, 2009

MOSS ADAMS_{LLP}

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Before We Get Started

- Posing questions to the presenters
- Earning CPE Credit
- Receiving a copy of the presentation

Speaking With You Today

- Bob Bunting - President of International Federation of Accountants (IFAC), Former Chairman of Moss Adams LLP
- Mark Fitzpatrick - Partner, International Services Group, Moss Adams LLP
- Bob Neate - Partner, International Services Group, Mazars

What IFAC Does

- Sets international accounting standards for:
 - Auditing
 - Ethics
 - Accounting Education
 - Public Sector Financial Reporting
- Supports adoption and implementation of all global accounting standards
- Speaks for the global auditing and accounting profession
- Liases with regulators and other standard setters

Moss Adams and Mazars

Mazars is joining us for this webinar

- Moss Adams and Mazars are founding members of Praxity.
- We work closely together on many international assignments and share a Partner in LA.
- Mazars is a major international firm with 10,500 people in 50 countries.
- As Europe converted to IFRS in 2005, Mazars has deep experience with the issues.

IFRS for SMEs and What You Need to Know Today

- Agenda

- Introduction

- How did we get here? How is the goal of adoption achieved?
 - The path from U.S. GAAP to IFRS to IFRS for SMEs

- IFRS for SMEs in the US

- Who can adopt and when?
 - Key GAAP differences – U.S. to IFRS to IFRS for SMEs

- IFRS for SMEs Globally

- Pros and cons of adoption – the business case for and against adoption
 - Implementation of adoption – practical implications
 - Transition – a case study

Goal of IFRS

- To provide the world's integrating capital markets with a common language for financial reporting
 - A single set of high-quality global accounting standards for all reporting companies
 - That also takes into account of the needs of:
 - Small and medium-sized entities; and
 - Emerging economies.

How IFRS Became the Global Standard

- A compelling need for a level playing field in the capital markets.
- An independent standard-setting board.
- Overseen by a geographically and professionally diverse body of trustees.
- Publically accountable to a Monitoring Board of capital market authorities.
- A thorough, open and transparent due process.
- Engage investors, regulators, business leaders and the profession at every stage of the process.
- Collaborative efforts with the worldwide standard-setting community.

Why IFRS for SMEs / Private Companies?

- Full IFRS meets the needs of capital providers and financial statement users in public capital markets.
- Users of financial statements of SMEs do not have those needs. They focus on assessing shorter-term cash flows, liquidity and solvency.
- Many SMEs find full IFRS too complex and costly to adopt and maintain.
- IASB's goals for IFRS for SMEs:
 - Meet user needs
 - Balance costs and benefits from a preparer's perspective

Benefits of IFRS for SMEs

- Ease the burden where full adoption of IFRS is now required
- Uniform education and training
- Improve efficiency and access to capital
- Auditing efficiencies

Can SMEs Simply Choose to Adopt it?

- Depends on local law
 - In USA, generally yes. IASB is now a designated standard setter (along with FASB) in the AICPA code of ethics.
 - State Boards of Accountancy requirements will need to be monitored.
 - AICPA/FASB Committee considering for private companies.
 - In some countries, on the other hand, currently only full IFRSs and local GAAP can be used. There would need to be a change to local law to permit adoption of the IFRS for PEs.

Can SMEs Simply Choose to Adopt It?

- What about the European Union?
 - Neither required nor prohibited by the accounting directives
 - Member States can decide whether to permit or require, and for which entities
 - Today there are about 55 different SME GAAPs in the EU!
 - However, the Accounting Standards Board in the UK has proposed IFRS for SMEs to replace their private company GAAP

Plan for Maintenance

- Initial comprehensive review after 2 years implementation experience
 - Fix errors and omissions, lack of clarity
 - Also consider need for improvements based on recent IFRSs and amendments to IASs
- Thereafter once every three years (approximately) omnibus exposure draft of updates

Who Can Adopt IFRS for SMEs and When?

- Anyone who is a SME (Small or Medium-sized Entity)
 1. Publish financial statements for external users and
 2. Have no “public accountability”
 - Files or in process of filing on a public market
 - Entity holds assets in fiduciary capacity for others
- Basically, private entities
- There is no quantified threshold

Who Can Adopt IFRS for SMEs and When?

- Designed for the “typical mid-size” company with users who focus on:
 - Shorter term cash flows and liquidity
 - Balance sheet strength
 - Historical operating results
 - Interest coverage
- Can be adopted now IF key financial statement users agree
 - Lenders
 - Investors

Similarities and Differences

	<i>US GAAP</i>	<i>IFRS</i>	<i>IFRS for SMEs</i>
Fundamental basis	Generally, specific guidelines and rules	Generally, more principles and judgment based and less specific guidelines and rules	
LIFO inventory costing	Allowed	Not allowed	
Inventory valuation	Lower of cost or market	Lower of cost or net realizable value	

Similarities and Differences

	<i>US GAAP</i>	<i>IFRS</i>	<i>IFRS for SMEs</i>
Goodwill carrying value	Not amortized; 2 step impairment test	Not amortized; 1 step impairment test	Amortize for period up to 10 years; 1 step impairment test
Impairments and write-downs	No reversal	Can be reversed (except goodwill)	

Similarities and Differences

	<i>US GAAP</i>	<i>IFRS</i>	<i>IFRS for SMEs</i>
Leasing	Guidelines and specific tests	Similar guidelines, no specific tests	
Reserves and provisions	Record when probable (>75% likelihood)	Record when “probable” – defined as “more likely than not” which is >50% likelihood	

Similarities and Differences

	<i>US GAAP</i>	<i>IFRS</i>	<i>IFRS for SMEs</i>
Consolidation	Consider variable interests (FIN 46R) then voting interests (traditional control approach)	No FIN 46R equivalent but similar guidelines; evaluate all control elements and consolidate controlled entities	

Similarities and Differences

	<i>US GAAP</i>	<i>IFRS</i>	<i>IFRS for SMEs</i>
Research & development costs	Acquired = capitalized; Internally-developed = expensed	Research = expensed; Development = capitalized	Both are expensed
Borrowing costs	Generally capitalize and amortize		Expensed

Similarities and Differences

	US GAAP	IFRS	IFRS for SMEs
Hedge accounting	Rigorous and specific guidance to apply hedge accounting		Simplified; only certain hedge types allowed
Disclosures	“Normal” amount; expanded for SEC	More detailed requirements	

IFRS for SMEs Globally

Three key areas being considered:

- Pros and Cons of adoption
 - The business case
- Practical implications regarding adopting IFRS for SMEs
 - Key lessons learnt from IFRS conversion in Europe
- IFRS conversion
 - Practical approach to conversion projects

Adoption of IFRS for SMEs

- Private companies in the US now have the choice to prepare their financial statements in accordance with IFRS for SMEs.
- A number of factors will drive that decision, including user preferences and local regulations
- However, it is important for companies to consider the **Pros** and **Cons** of adoption to see if the IFRS for SMEs will be right for them



Pros and Cons of Adoption

A simplified set of self-contained accounting rules:

- Only 230 pages compared to full IFRS which is 2,700 pages compared to US GAAP which is approximately 17,000 pages (following codification)



Pros and Cons of Adoption

Pros

- Cost/benefit – easier accounting rules, simplified format, low ongoing cost
- Harmonisation of rules with overseas entities applying IFRS (especially if foreign owned)
- Will enable investors, lenders to better compare financial performance of private entities
- May better meet user's needs
- “One-stop shop” of accounting requirements which is only updated every 2 to 3 years

Cons

- Initial conversion cost
- May in fact give more information than private entities provide currently under US GAAP (e.g. Comparatives)
- Will it be accepted by users? (Some users may in the short-term still request US GAAP financial statements)
- Legal, tax and financial implications of differences
- May need training and/or technical support on IFRS (in the short-term)
- Simplification does not necessary mean better

Pros and Cons of Adoption

- Need to consider the potential impact on the numbers!

Impairment

Goodwill
amortisation



"But under a different
accounting convention ..."

Revenue
recognition

Employee
benefits

Borrowing
costs

Practical Considerations

You will need to:

- Understand the effect on your financial statements – conduct an impact assessment!
- Set out a clear strategy for conversion
- Consider first-time adoption exemptions so as to facilitate a cost-effective transition to IFRS for SME reporting
- Understand the underlying IFRS principles and objectives and how they are applied. With only 230 pages of guidance such an approach requires a change in mindset!
- Ensure all users “buy-in” to reporting using IFRS for SMEs
- Ensure IFRS is embedded into all elements of financial reporting to benefit from efficiencies

Key Issues Arising When Implementing IFRS in Europe

Some key issues faced by European entities while converting to (full) IFRS were as follows:

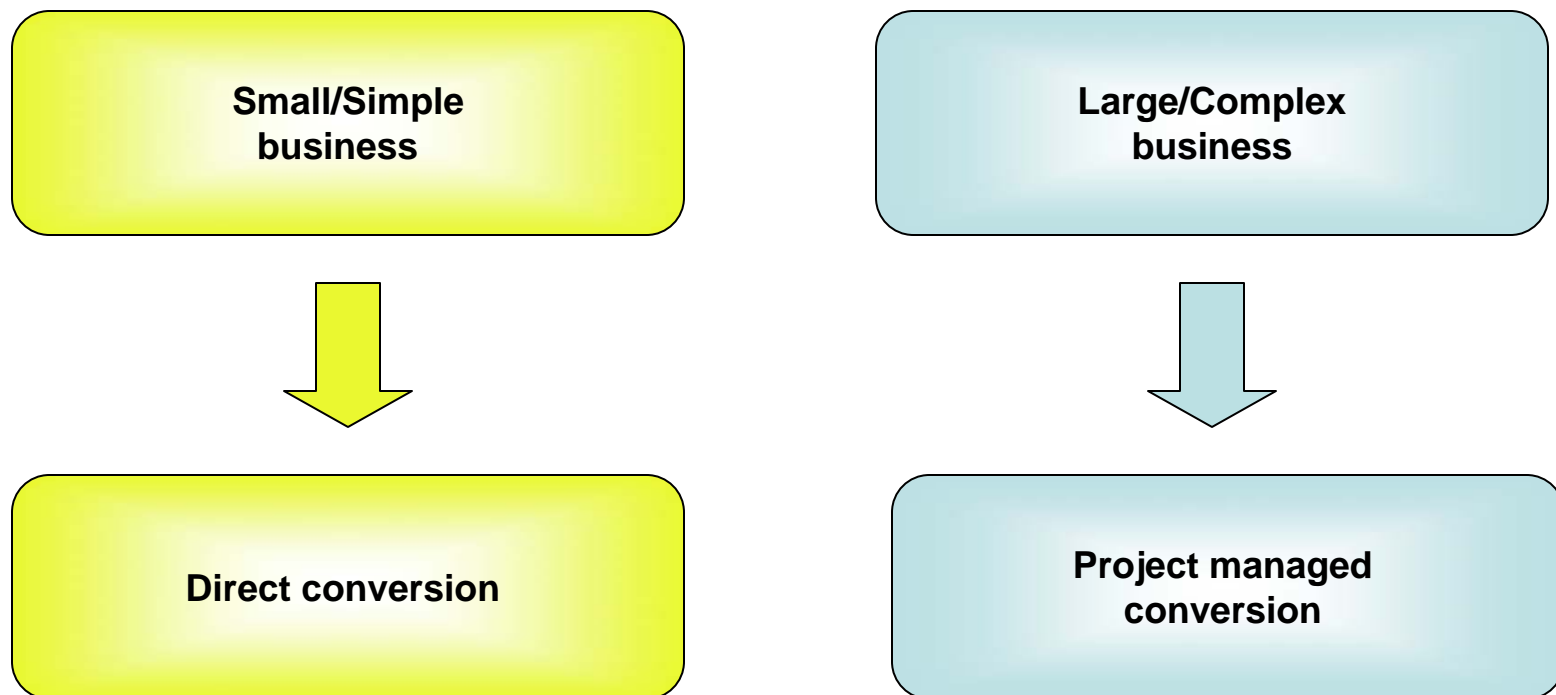
- Untrained staff (*Lack of IFRS knowledge*)
- Differences often in the detail where practical experience is needed
- Lack of practical guidance on IFRS conversion
- Time and cost of conversion to IFRS often under budgeted
- Collating the data (on a timely basis)
- Access difficulties to IFRS technical experts (for complex areas)
- IFRS application requires management to exercise judgement and estimations, since it is principled based and not rule based
- Increased communication was required for keeping analysts and stakeholders informed

Key Lessons Learned from IFRS Conversion in Europe

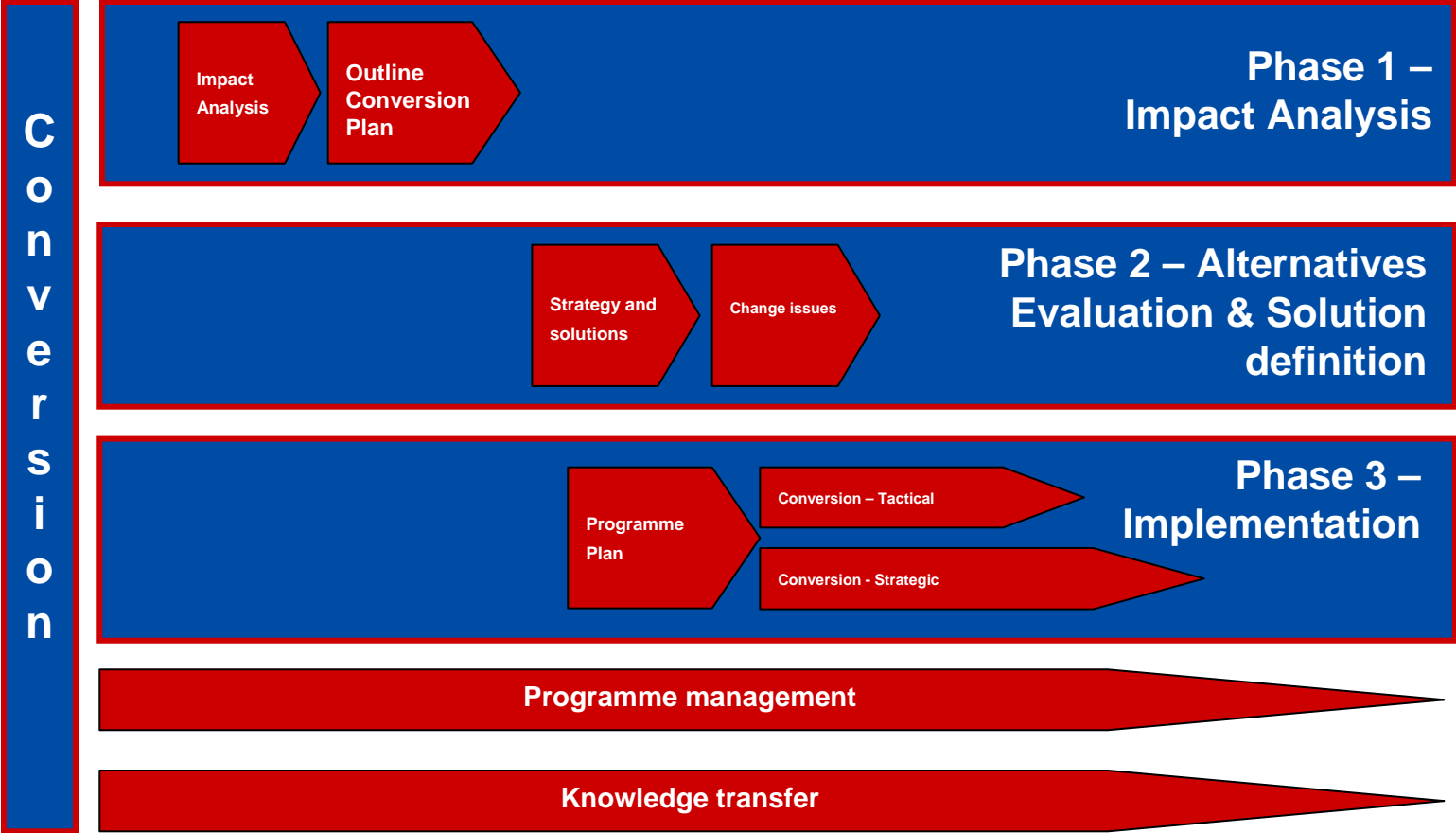
- Conduct an IFRS impact assessment at an early stage
 - This will highlight the key areas and help project management
- Take the opportunity to revisit your accounting policies
 - Look at any accounting policy options and best practice
- Don't underestimate differences in disclosure requirements
 - Preparing 'shadow' financial statements at an early stage helps to ensure all data is captured
- Training is often key in the process
- The best projects had support from top management
- Breaking projects down into smaller "milestones" helps to track progress
- Ensure clear communication throughout the conversion project

IFRS Conversion

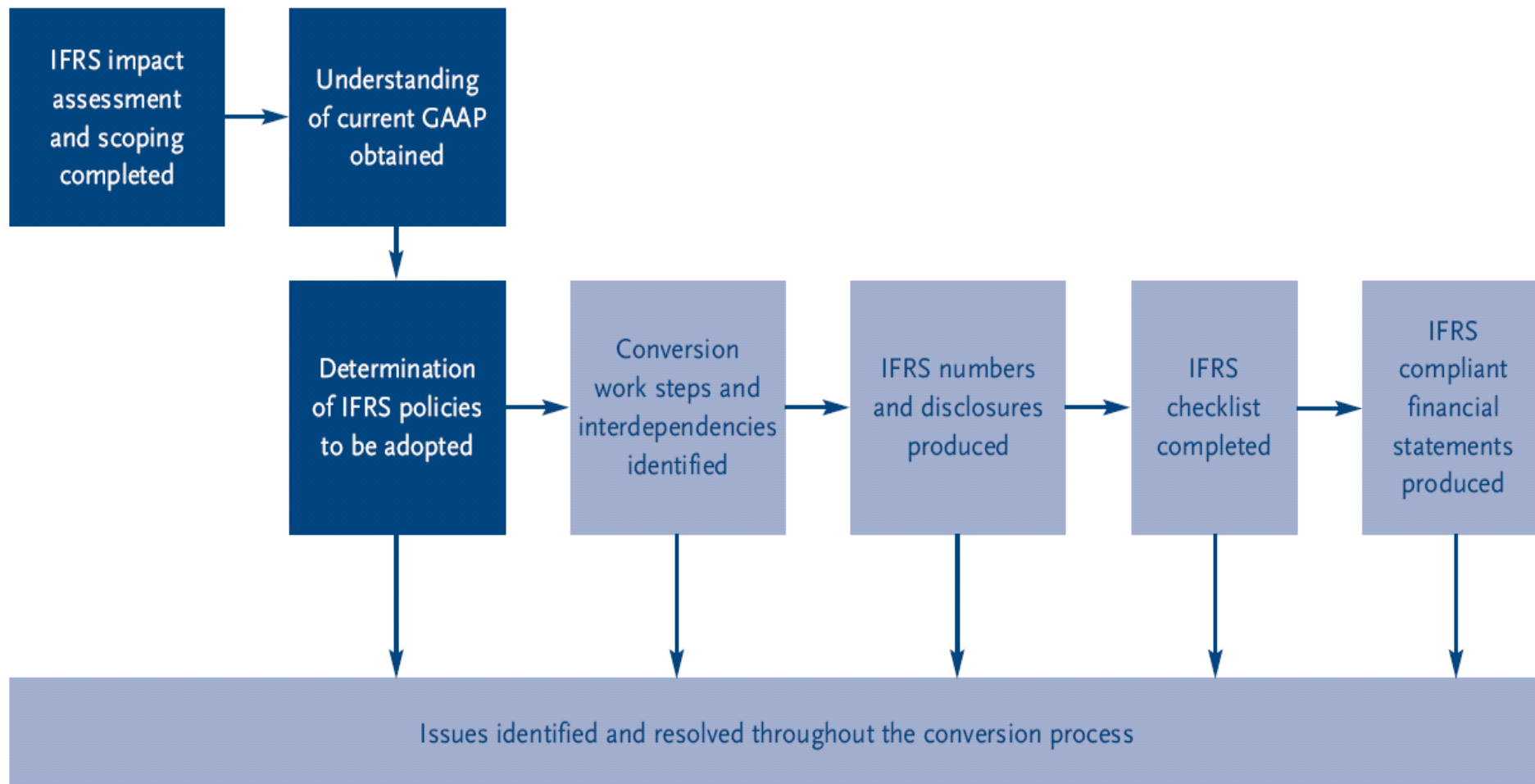
The approach to conversion will vary depending on size and complexity of the business



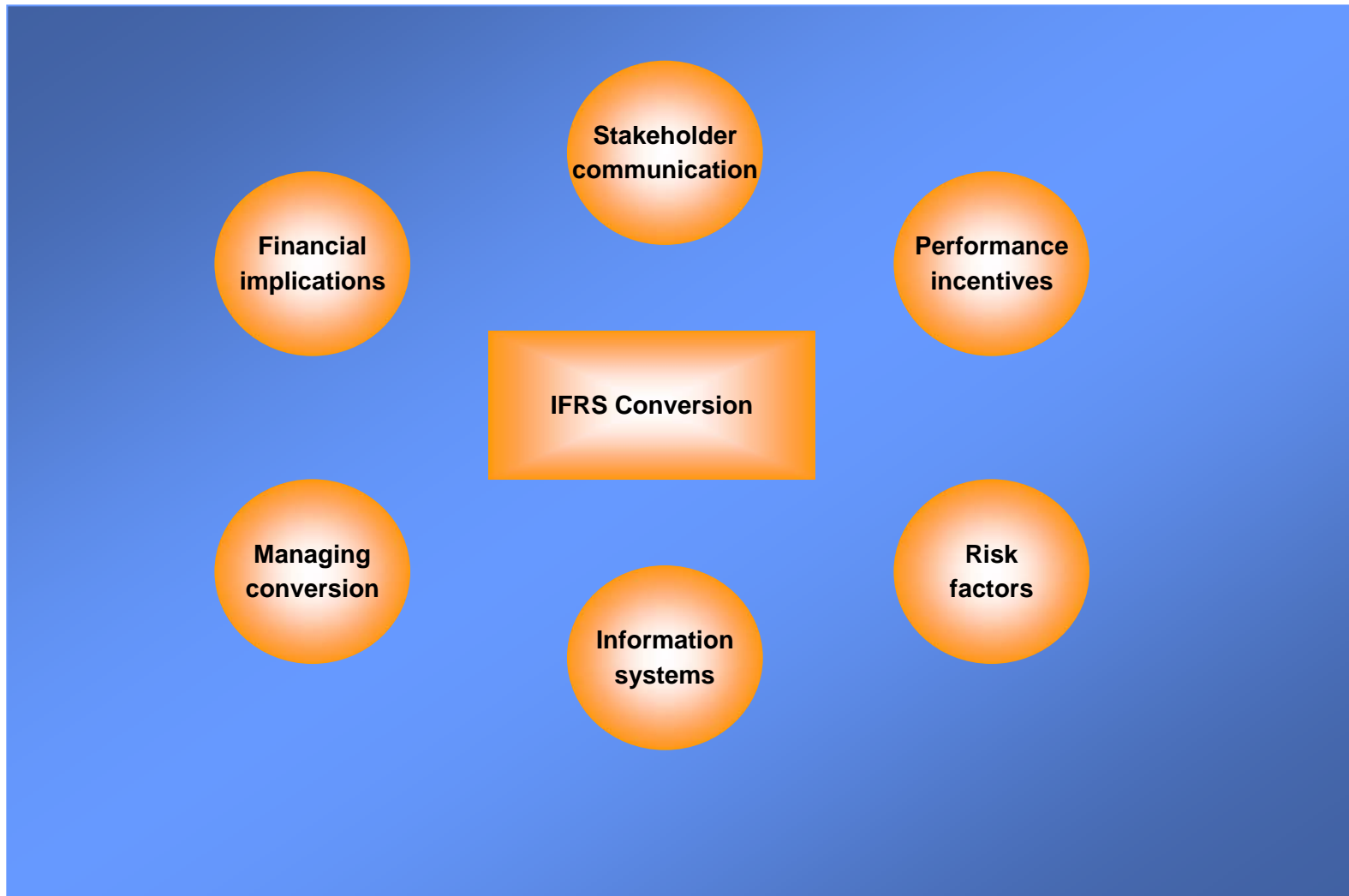
IFRS Conversion – Project Management Approach



Implementation Process



Assessing the Wider Implications of Conversion



More Information on IFRS for SMEs

- www.iasb.org
- www.ifrs.com
- www.mossadams.com
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Thank you for joining us!

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