SMEs and IFRS — the impacts

International accounting standard setters kicked off their consultation process on the development of standards for small to medium entities with the release of a discussion paper on the topic in the past fortnight.

The SME project paper, which has been a fixture on the meeting agenda of the International Accounting Standards Board for some time, sets down the key principles members of the IASB believe should apply when considering the development of 'IFRS Jnr'.

Be warned, however, that the criteria for the application of the any standard that falls into the category of 'IFRS Jnr' will be subject to the criteria of a public accountability test. Those entities that fall within the public accountability class of entities would be required to prepare financial statements in accordance with all of the requirements set down in the IASB's standards.

Where an entity is deemed to not have a public accountability function it is likely to be able to use 'IFRS Jnr'. It should be noted at this point the IASB has rejected the arbitrariness of the kind of size test that presently operates in Australian law that is used to specify the companies required to lodge financial statements.

How would the IASB apply a 'public accountability' measuring stick? The preliminary view on accountability states that a publicly accountable entity has a high level of external interest in its affairs from non-management investors and other stakeholders and those stakeholders without alternative means of getting financial information from an entity.

A further criterion is that an entity has an essential public service responsibility because of the nature of its operations.

There are several presumptive indicators of public accountability listed in the discussion paper. An entity should be regarded as having a public accountability if:

- it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market
- 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 banking entity
- it is a public utility or similar entity that provides an essential public service
- it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance, and nature and extent of external borrowings.

An entity that does not fit into any of the above categories, the discussion papers states, would still be presumed to have an obligation to be publicly accountable unless it has received consent from all of its owners — including any owners that may not be entitled to vote — to publish accounts based on 'IFRS Jnr' rather than the full suite of IASB standards.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.