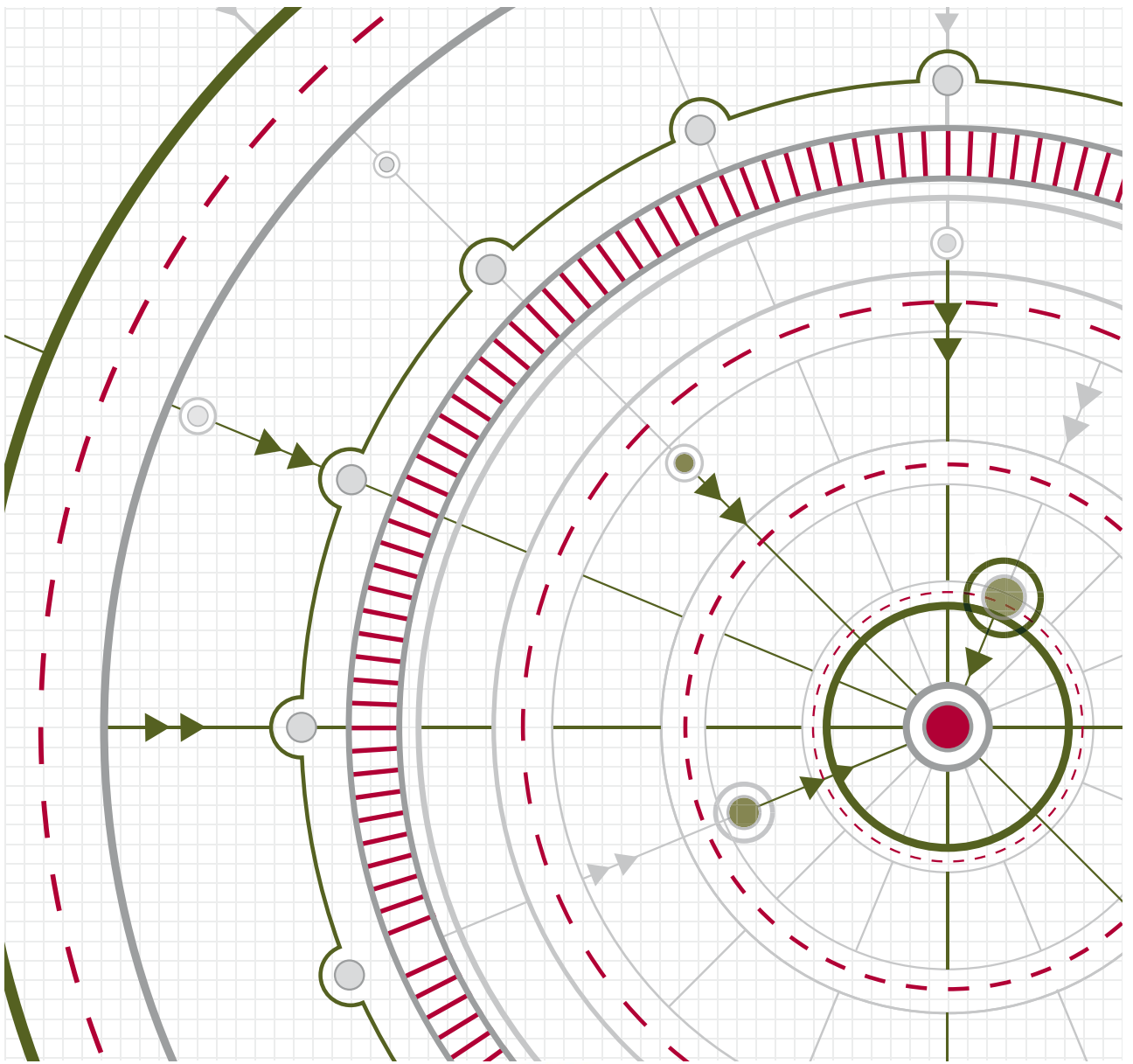


24-26 August 2016
Safari Park Hotel, Nairobi, Kenya

Workshop Presentation Materials

Joint IFRS® Foundation, PAFA and ICPAK IFRS Conference and *IFRS for SMEs* Workshop



**Joint IFRS® Foundation PAFA and ICPAK
IFRS for SMEs workshop**

Morning of Wednesday 24 August 2016—Nairobi, Kenya

To enhance understanding of fair value and other cross-cutting issues in measuring assets and liabilities in accordance with IFRS Standards and the IFRS for SMEs Standard, an interactive half-day workshop will be held immediately before the IFRS Conference, on the morning of Morning of Wednesday 24 August 2016.

09:00 **Registration and refreshments**

09:30 **Welcome: ICPAK**

09:35 **Applying the SME hierarchy:**

- Darrel Scott, IASB Member

10:15 **Implementing IFRS for SMEs Standard 2015**

- FCPA Simon Fisher

11:15 **Considerations when next amending the IFRS for SMEs Standard:**

- Darrel Scott, IASB Member

12:00 **End of workshop**



**Joint IFRS[®] Foundation, PAFA and ICPAK
IFRS Conference and *IFRS for SMEs* workshop**

24–26 August 2016
Safari Park Hotel, Nairobi, Kenya

Special Interest Session

IFRS for SMEs workshop

DARREL SCOTT

Member

IASB

SIMON FISHER

Technical Partner

RSM Eastern Africa, and

Member of the IASB's SME Implementation Group, and

Member of the IFRS Advisory Committee

RSM International

IFRS® Foundation

2015

International Financial Reporting Standard® (IFRS®)
for Small and Medium-sized Entities (SMEs)

IFRS for SMEs®

This official pronouncement incorporates 2015 Amendments to the
IFRS for SMEs (effective 1 January 2017 with early application permitted).

IFRS Conference, Nairobi, Kenya
Darrel Scott, IASB Member

The views expressed in this presentation are those of the presenter,
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Introduction to *IFRS for SMEs*

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The *IFRS for SMEs*

3

Good Financial Reporting Made Simple

- Less than 250 pages, issued mid 2009, updated in May 2015
- Simplified IFRS, but **built on a full** IFRS foundation
- **Modifications** based on 2 criteria:
 - needs of **users of SME** financial statements
 - **cost-benefit** considerations
- Completely **stand-alone**



Who is eligible to use it?

4

Any entity that **does not** have public accountability

- Securities **not** publicly traded
- Does **not hold** assets in a **fiduciary capacity** for a broad group of outsiders as a primary businesses, eg not a financial institution



Who is the *IFRS for SMEs* aimed at?

5

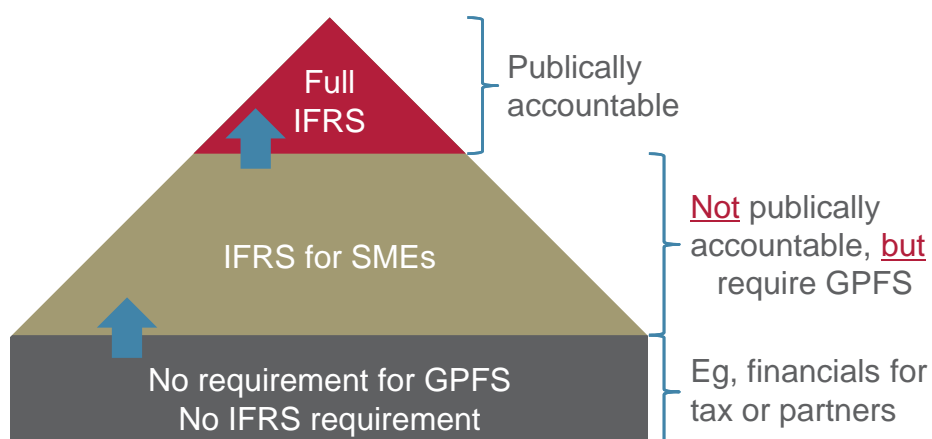
Entities that are required or choose to produce general purpose financial statements

- Directed to the general needs of a **wide range** of users
- who are not able to demand reports tailored to their particular information needs



Who is the *IFRS for SMEs* aimed at? *Choice is a public interest issue*

6



Use around the world

7

140 jurisdictions profiles posted

- IFRS Foundation is developing profiles of application of full IFRSs and the *IFRS for SMEs*
 - 73 of the 140 jurisdictions require or permit the *IFRS for SMEs*
 - 14 are currently considering requiring or permitting the *IFRS for SMEs*

Source: IFRS as global standards: (updated July 2015, ongoing)



IFRS® Foundation

SME Implementation Group
SMEIG

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SMEIG

9

Objective

- Support international adoption of the *IFRS for SMEs* and to monitor its implementation

Main responsibilities

- Develop non-mandatory guidance on IFRS for SMEs in the form of Q&As
- Make recommendations to the IASB on the need to amend the IFRS for SMEs



Membership

10

- Appointed in September 2010
- On 30 June 2014 second term of existing 22 SMEIG members ended
- Expansion to a maximum of 30 members
 - 11 existing members reappointed for continuity
 - 16 new members
- 3 vacancies, in case suitable candidates are identified at a later date
- Broad geographical split (including 5 from Africa)
- On 30 June 2016 11 will retire



2015 Amendments

Overview of 2015 Amendments *Strategy*

12

Limited Amendments

- Few significant **issues** identified
- IFRS for SMEs is **still a new Standard**
- **Remember** the principle:
 - Keep it **simple**
 - **Alignment** with full IFRS useful, not essential
 - **SMEs** (users, preparers, regulators)
- Each **new and revised IFRS** considered individually
- New IFRSs **only** considered **once published**

Overview of 2015 Amendments

Main amendments

13

- Permitting **revaluation model** for PPE
- Aligning recognition and measurement requirements for **income tax** with full IFRS
- A few additional **undue cost or effort exemptions**, plus
 - guidance on application
 - required disclosure of reasoning
- Most other amendments **clarify or add guidance**
 - rather than change underlying requirements

2015 Amendments

Revaluation of PPE

14

Previous requirements

- SMEs are not permitted to use a revaluation model for property, plant and equipment (PPE)
- **Inconsistent** with full IFRS (which allows an option), BUT
- **Consistent** with intent **to limit options** for SMEs (as a simplification both for preparers and users)

2015 Amendments

Revaluation of PPE

15

Introduced option to use revaluation model for PPE

- Strongly held view that this option provides relevant information
- Considered on balance that current value of PPE can be important for SME users, weighed up:
 - Additional complexity, against
 - usefulness
- Consistent with full IFRS
- Introduced in a format very similar to IAS 16
- No other policy options added



2015 Amendments

Undue cost or effort

16

Previous exemptions

- Measurement of fair value of:
 - investment property
 - biological assets
 - associates / jointly-controlled entities under fair value model
- Projected unit credit method for defined benefit plans
- Disclosure of financial effect for contingent assets
- Recognition of deferred tax assets/liabilities on first-time adoption



2015 Amendments

Undue cost or effort

17

Guidance, exemptions and disclosure added

- Additional guidance from SMEIG Q&A 2012/01
- New exemptions:
 - Measurement of fair value of investments in equity instruments
 - Measurement of fair value of non-cash dividend payable
 - Recognising intangible assets in business combination
 - Offsetting income tax assets and liabilities
- SMEs required to disclose when they use an 'undue cost or effort' exemption and give reasoning



2015 Amendments

Income Tax

18

Previous requirements

- Based on IASB's 2009 Exposure Draft Income Tax that was never finalised

Aligned with IAS 12

- Alignment of main principles for recognition and measurement of deferred tax with full IFRSs
- Retains presentation and disclosure simplifications



2015 Amendments

Other changes

19

- If **useful life of goodwill**/other intangible asset cannot be estimated reliably, must not exceed 10 years
 - previously fixed at 10 years
- Leases with **interest rate variation** clause linked to market interest rates moved to section on leases
 - previously fair value through profit or loss
- **Liability component** of a compound financial instrument treated like **standalone** financial liability
 - previously amortised cost

2015 Amendments

Provide supporting guidance or clarification

20

- Expected to **improve understanding**, without a significant effect on SME's reporting practices/financial statements
- A few **examples**:
 - new **glossary** items
 - **classifying** financial instruments
 - **allocating cost** of a business combination
 - preparing consolidated financial statements if group entities have **different reporting dates**
 - accounting for **subsidiaries acquired/held for sale**
 - accounting for **vesting conditions**

2015 Amendments

Principles for new and revised IFRSs

21

Incorporated

- Mostly **minor amendments** to IFRSs
- provide **additional clarity** or a simplification
- fix **problems or diversity** in practice

Not incorporated

- Changes under IFRS 3(2008), IFRS 9, IFRS 10, IFRS 11, IFRS 12 and IFRS 13, IAS 19(2011), IFRS 14, IFRS 15
- Current and future changes to **Conceptual Framework**
- **Future changes** in other IASB projects



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Future reviews of the Standard

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Future reviews of the Standard

Comprehensive review: revisit

23

Proposal

- To **start two years after** effective date of amendments from the last comprehensive review
- Includes Request for Information and exposure draft

Probable effect in current cycle

- Review would start **January 2019**
- Include:
 - **Consequences** of 2017 changes
 - **New** application issues
 - **New IFRSs**
- Effective 2022/2023



Future reviews of the Standard

Interim review: Maintenance

24

Proposal

- **Interim review** to consider new and revised IFRS not yet incorporated
- Consider any **urgent changes**
- Includes exposure draft (but not Request for Information)

Effect in current cycle

- Start in late **2015**
- Application of Financial Instruments, Revenue, Leases, Control and Rate Regulated (IFRS 9 through 16)
- Revised Conceptual Framework?
- Effective 2019/2020



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Appendix
For information only



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Initial comprehensive review

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- **Request for Information** (RfI) issued June 2012
- **SMEIG** developed recommendations for IASB on possible amendments to the IFRS for SMEs February-March 2013
- **IASB** deliberations April–June 2013
- **Exposure Draft** issued October 2013
- **SMEIG** recommendations ongoing July to September 2014
- **IASB** deliberations from October 2014
- **Final amendments** in May 2015



Useful links and downloads (1 of 2)

28

- IFRS for SMEs (full standard, translations)
<http://go.ifrs.org/IFRSforSMEs>
- Training materials (one module per section)
<http://go.ifrs.org/smetraining>
- PowerPoint training modules (20 PPTs)
<http://go.ifrs.org/trainingppts>
- IASB and staff presentations
<http://go.ifrs.org/presentations>
- Update newsletter
<http://go.ifrs.org/smeupdate>



Useful links and downloads (2 of 2)

29

- Use around the world
<http://go.ifrs.org/Analysis-of-SME-profiles>
- SMEIG Q&As
<http://go.ifrs.org/SMEs-Q-and-A>
- Comprehensive review
<http://go.ifrs.org/Comprehensive-Review-SMEs>
- Executive briefing booklet
<http://go.ifrs.org/A-Guide-to-IFRS-for-SMEs-March-2012>

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING



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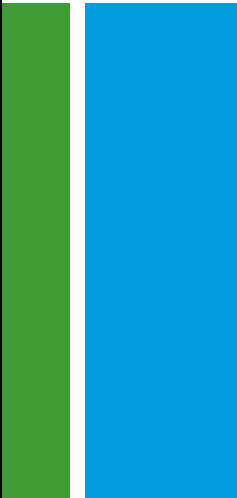


IMPLEMENTING THE IFRS FOR SMES IN EASTERN AFRICA

Simon Fisher, Technical Partner, RSM Eastern Africa



Agenda

- 
- What is an SME?
 - Simplifications from full IFRS
 - Implementation in Kenya
 - Transition to 2015 Amendments



What is an SME?

As defined in the IFRS for SMEs

- An SME is an entity that:
 - Does not have public accountability: and
 - Publishes general purpose financial statements for external users
- An entity has public accountability if:
 - Its debt and equity instruments are traded in a public market, or it is in the process of issuing such instruments
 - It holds funds in a fiduciary capacity for a broad group of outsiders as one of its primary businesses
- No quantitative measures

What is an SME?

- Local regulators determine which entities, if any, can apply the IFRS for SMEs, but they cannot include entities with public accountability.
- Currently 73 jurisdictions permit or require use of the IFRS for SMEs
- Worldwide, more entities apply the IFRS for SMEs than apply full IFRS

What is an SME?

ICPAK has designated the following entities as publicly accountable, which therefore cannot use the IFRS for SMEs as a framework for financial reporting:

- Companies whose debt or equity instruments are traded in a public market or are in the process of issuing such instruments for trading in a public market
- Banks and building societies
- Savings and credit unions including SACCOs
- Insurance companies
- Retirement benefit schemes
- State owned entities including state funded parastatals
- Mutual funds
- Investment banks
- Stock brokers

What is an SME?

ICPAU's guidance is broadly similar to Kenya.

Unfortunately in Tanzania an entity also has to meet the following criteria to be allowed to use the IFRS for SMEs:

- Less than 100 employees
- Investment in non-current assets of less than Shs 800 million (≈ USD 365,000)

Does this really embrace medium-sized companies?




SIMPLIFICATIONS FROM FULL IFRS

2009 Edition



Simplifications from full IFRS



The IFRS for SMEs was derived from full IFRS (as it was in 2008), but greatly simplified. Simplification was achieved by:

- Omitting topics
- Excluding options
- Recognition and measurement simplifications
- Substantially reducing disclosure requirements
- “Clarity” redrafting



Simplifications from full IFRS

Omitted topics

- Topics applicable only to listed companies:
 - Earnings per share
 - Interim financial reporting
 - Segment reporting
- Topic applicable only to retirement benefit schemes
- And:
 - Accounting for non-current assets held for sale and discontinued operations (IFRS 5)



Simplifications from full IFRS

Options excluded

- Property, plant and equipment and intangible assets: revaluation not allowed
- Investment property: choice between fair value model and cost model driven by circumstances
- Government grants: various options removed
- Financial assets: amortised cost or fair value through profit or loss
 - no available-for-sale or held-to-maturity



Simplifications from full IFRS

Recognition and measurement simplifications

- Financial assets:
 - Simple instruments meeting certain criteria at amortised cost; all others at fair value through profit or loss
 - Simplified hedge accounting requirements
- Indefinite life intangible assets including goodwill:
 - Amortised over useful lives, with a default of 10 years



Simplifications from full IFRS

Recognition and measurement simplifications

- Investments in associates and joint ventures:
 - Can be measured at cost if not quoted. Equity method or measurement at fair value also allowed
- Borrowing costs:
 - Always expensed (capitalisation prohibited)
- Research and development costs:
 - Always expensed



Simplifications from full IFRS

Recognition and measurement simplifications

- Defined benefit plan obligations:
 - Actuarial gains and losses must be recognised immediately – either in profit or loss or in other comprehensive income
 - All past service costs must be recognised immediately
 - Projected unit credit method still required, but only if possible without due cost or effort – otherwise calculate based on years of service and salary at the balance sheet date

Simplifications from full IFRS

Recognition and measurement simplifications

- Non-current assets held for sale:
 - No separate classification required: instead, intention to sell is an impairment indicator
- Biological assets:
 - Still at fair value through profit or loss, but only when readily determinable without undue cost or effort: otherwise use cost/depreciation/impairment model

Mistakes!

Income tax

- Based on the Exposure Draft to replace IAS 12, which was subsequently abandoned
- Inserted at last minute – not subject to due process
- Attempts to simplify resulted in some requirements that no longer made sense:
 - For example, it requires disclosure of: “an explanation of significant differences in amounts presented in the statement of comprehensive income and amounts reported to tax authorities”



Simplifications from full IFRS

Significantly reduced disclosure requirements

- No disclosures about how financial risks are monitored and managed (IFRS 7)
- No fair value disclosures
- No disclosure in respect of investments in associates
- No need to provide a numerical ‘tax reconciliation’
- No comparative for movement in property, plant and equipment
- No need to disclose amendments to the Standard unless they have an effect on the financial statements



To summarise ...

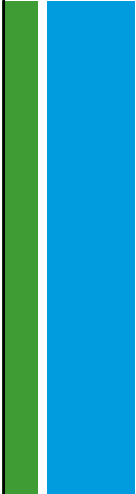
... significant differences between the IFRS for SMEs and full IFRS

- Revaluations of PPE and intangible assets prohibited
- No capitalisation of borrowing costs or R&D costs
- Goodwill must be amortised – default of 10 years
- Two categories of financial assets (“basic” and “other”)
- Investments in associates and joint ventures can be measured at cost if not quoted; equity method still permitted
- Simpler options allowed when compliance with benchmark would involve “undue cost or effort”, e.g. for retirement benefit obligations and biological assets
- No IFRS 7 disclosures

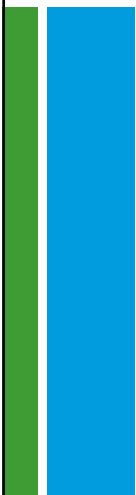


IMPLEMENTATION IN KENYA

Implementation in Kenya

- 
- Before the IFRS for SMEs arrived in 2009, all entities had to apply full IFRS
 - Transition from full IFRS is usually quite simple, and often does not require restatement
 - Many financial statements that purport to comply with full IFRS, do not comply, but they could easily be made to comply with the IFRS for SMEs

Implementation in Kenya

- 
- However, take up has been slow: in a survey of 250 SMEs in Kenya in 2014, less than 40 applied the IFRS for SMEs
 - Why is this?

Implementation in Kenya

Reasons given for not moving to the IFRS for SMEs

- We haven't read the Standard
- We are more familiar with full IFRS than with the IFRS for SMEs
- The IFRS for SMEs is "inferior"
- We have a 'template' for full IFRS, we don't have one for the IFRS for SMEs
- "Our auditors won't allow us to change"
- Changing will be expensive
- We don't like being referred to as a "small"

Implementation in Kenya

Reasons given for not moving to the IFRS for SMEs

Fact:

- there is a family owned business in Kenya with a turnover of Shs 9 billion (≈ USD 90 million) that is happy to be considered a medium-sized business and apply the IFRS for SMEs
- Safaricom (a 'large' company) has a turnover of Shs 195 billion (≈ USD 1,900 million)

Implementation in Kenya

Benefits of moving to the IFRS for SMEs

- Property, plant and equipment cannot be revalued (until now)
- Goodwill on consolidation does not have to be tested for impairment – it should be amortised
- Post employment benefit obligations - projected unit credit method does not have to be used – particularly helpful for ‘terminal gratuities’ under Collective Bargaining Agreements
- Biological assets can be measured using a cost model – with no requirement to measure growing produce separately
- Only 3 items of other comprehensive income – rarely encountered (until now)



Implementation in Kenya

Benefits of moving to the IFRS for SMEs (continued)

Significantly reduced disclosure requirements:

- No disclosures about how financial risks are monitored and managed (IFRS 7)
- No fair value disclosures
- No disclosure in respect of investments in associates
- No comparative for movement in property, plant and equipment
- No need to disclose amendments to the Standard unless they have an effect on the financial statements



Implementation in Kenya

Disadvantages of moving to the IFRS for SMEs

- Borrowing costs cannot be capitalised – this is particularly problematic for companies developing property
- Section on Income Tax was unintelligible (now fixed)
- Investment property has to be measured at fair value if fair value can be measured reliably without undue cost or effort

Implementation in Kenya

Possible transition issues

- If PPE has previously been revalued, the carrying amount can be treated as deemed cost on transition, but what happens to the revaluation surplus (per IAS 16)?
- If borrowing costs were capitalised when PPE was constructed, do they need to be written off on transition?

Implementation in Kenya

Guidance provided by ICPAK

- Several IFRS for SMEs workshops have been held
- 'Specimen' financial statements for an SME are available on the ICPAK website

TRANSITION TO 2015 AMENDMENTS

Transition

- The amendments must be applied for annual periods beginning on or after 1 January 2017. Earlier application is permitted provided all of the amendments are applied at the same time.
- Amendments must be applied retrospectively unless impracticable, with the following exceptions:
 - Revaluation of property, plant and equipment must be prospective
 - Application of the revised income tax requirements must be prospective

Transition

Possible difficulties in implementing the Amendments

- None! (as long as you don't want to revalue PPE)
- Apply them early – e.g. 31 December 2016 year-ends
- If you were already applying IAS 12 because Section 29 made no sense, you will be able to sleep more easily

A final word ...



"The IFRS for SMEs has been a remarkable success and is now used by millions of companies worldwide. The amendments are expected to improve the Standard for companies and users of their financial statements. As a result we expect the adoption to spread further, improving reporting and consistency among companies without public accountability around the world."

Hans Hoogervorst
Chairman of the IASB

Questions and answers?



THANK YOU