

IFRS for Private Entities

*Survey on the needs of SMEs
and Field tests
Results and Analysis*

FEE Monday July 7th 2008

CNC presentation



Context

- Various projects undertaken on the accounting for SMES :
 - IFRSs for Private entities
 - Work on the Accounting Directive simplification
 - Work by an EC expert group on « Requirements for accounting systems from the point of view of small enterprises » (2007)
 - Common consolidated corporate tax base (CCCTB)
- In this context the CNC decided to be pro active on assessing SMEs accounting needs :
 - Survey of the expectations and needs of SMEs
 - Active participation in the field tests organised by the IASB



CNC/Banque de France Survey on French SMEs (1)

- The objective was to evaluate the needs and expectations of SMEs with respect to international financial reporting and understand their reactions to the IASB 's proposals
- The study was carried jointly by the CNC and Banque de France
- To enable comparability, the questions were similar to the ones asked by the GASB
- 10 000 companies were asked to participate from November 27th 2007 to January 11th 2008.
- 678 companies participated (7%). The survey can be considered representative



CNC/Banque de France Survey on French SMEs (2)

- 173 questions were asked in the survey, on four major themes
 - general questions about the participating entities
 - are the issues addressed in the IASB project on IFRSs for Private Entities relevant for the entities
 - expectations on IFRSs for Private Entities
 - specific accounting issues
- Most of the entities that participated are medium size : - 90% have between 10 and 250 employees - more than 95% have a revenue between 1 et 35 M€
- 1/3 of the entities are active internationally but most do not have foreign operations



CNC/Banque de France Survey on French SMEs (3)

- 43% of the entities that participated are subsidiaries of a group
 - only 11% of the holding groups are traded on a stock market
 - banks (94,6%), management (86,5%), current shareholders (84,7%) and tax authorities (77,4%) are considered to be the primary users of external reporting
 - consolidated accounts are considered useful for the current shareholders (88,2%), for banks (86,5%) and for management (84,2%)



IASB « Field tests »

- The goal of the IASB was to verify through field tests if IFRS for SMEs attained their objectives and, if not, what changes were expected
- In France, the coordination of these field tests was made by the CNC in collaboration with CNCC, CSOEC and various audit firms.
- The field tests and the survey gave similar results, which are set out in the next slides.



Analysis (1)

- 94% of the interviewed companies consider that individual financial statements should cover all their reporting needs (banks 94%, own needs 86%, tax authorities 77%, dividends 69%)
- There is little demand and support for international standard
 - 3,7% of the interviewed companies consider there is a need for information comparable internationally
 - only 24% of the interviewed companies think that IFRSs for Private Entities should be implemented on a medium term



Analysis (2)

- IFRSs accounting differ widely from local GAAPs for some most common operations for SMEs : leases (60% of the interviewed entities), long term contracts (42,3%) Internally developed Research et Developments Projects (35,6%)
- SMEs have a limited knowledge of international financial reporting (90% have little or no knowledge of IFRSs)



Analysis (3)

- The *Field tests* highlighted a number of obstacles to the implementation of IFRSs for SMEs
 - IFRSs for SMEs are considered costly (initial training costs, specific skills will later be needed to implement IFRSs for SMEs). The costs are considered insurmountable obstacles by SMEs
 - IFRSs for Private Entities should be a stand alone document
 - ❖ The entities participating in the field test consider that the standard is not stand alone, and that cross-references to full IFRSs makes it difficult to implement IFRSs for Private Entities
 - ❖ In May 2008, the IASB took the decision to eliminate cross references. The options that were cross referenced will be either integrated in the standard or eliminated. All options however will be available to Private Entities.



Analysis (4)

- A number of the requirements for IFRSs for Private Entities were highly controversial among field test participants
 - Accounting for unrealised gains and losses of financial instruments other than the ones traded on a liquid market
 - Derecognition of financial instruments
 - Splitting debts and equity in hybrid financial liabilities
 - Accounting for derivatives at fair value
 - Deferred taxes
 - Share based payments



Analysis (5)

- On the contrary, the feed back was positive on :
 - The option on research and development costs
 - Impairment calculated by reference to market value when it is lower than the book value
 - Leases
 - Actualisation of long term provisions
 - Long term construction contracts



Impacts

- Two companies, one micro, one medium size, indicated the impact of the effects of the change from French GAAP to IFRSs on their financial statements
 - For the micro entity (9 employees), the global impact on equity was limited to 4%
 - For the medium entity (91 employees) the changes in valuation method had a 27% impact on equity
 - Main sources of divergence were :
 - ❖ fair value of AFS
 - ❖ finance leases
 - ❖ equity : difference in treatment of an associate frozen current account
 - ❖ goverment grants
 - ❖ post employment benefits
 - ❖ tax reserves



CNC Conclusions

- There is little need and support from SMEs for IFRSs for Private Entities
- Nonetheless the CNC will continue to monitor IFRS work on Private Entities