Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

33rd SESSION
4 - 6 October 2016
Room XVIII, Palais des Nations, Geneva

Thursday, 6 October 2016
Afternoon Session

Agenda item 5. Other business
(c) Updates by international and regional organizations

Presented by

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President
European Federation of Accountants and Auditors for Small and Medium-sized Enterprises

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EFAA’S activities in financial and non-financial reporting 2015/2016

BODO RICHARDT
PRESIDENT EFAA
ISAR 33 MEETING, GENEVA 6 OCTOBER 2016
Agenda

⭐ EFAA Survey ‘Trickle Down’
⭐ Is Integrated Reporting for SMEs?
EFAA Survey: Implementation of the EU Accounting Directive

- Accounting Directive was to be implemented for fiscal years from 1 January 2016
- EFAA Survey was published 31 May 2016
- Purpose of the EFAA survey:
  - provide insight into the options chosen by 8 member states
  - determine the likely effects of implementation of the EU Accounting Directive
  - draw conclusions
The New EU Accounting Directive - findings

★ More than 100 options
★ Different definitions of ‘net income’ (impact on size criteria, ratios and audit requirements)
★ 3 different size thresholds for 8 countries
★ 6 different size criteria relating to audit requirements
★ Filing requirements vary from 4 to 12 months
The New EU Accounting Directive - findings 2

★ 5 countries require publication of the profit and loss account of small companies
★ No consensus in the Directive regarding
  ☆ Revaluation of fixed assets
  ☆ Hedge accounting
  ☆ Life valuation of inventory
  ☆ Consolidation requirement of medium-sized comp
  ☆ etc.
## Options for important additional disclosures

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<th>Details of consolidating parent company</th>
<th>Off balance sheet arrangements</th>
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The New EU Accounting Directive - main conclusions and consequences

Conclusions

★ No harmonised financial reporting across Europe
★ Differences in the deadlines for financial reports
★ Many accounting treatments not dealt with in the Directive, e.g. leases, deferred tax, pensions

Consequences

★ Impediment regarding doing business cross border
★ Impediment for a EU Capital Market Union
★ Impediment for a Common Consolidated Tax Base
EFAA Survey ‘Trickle Down’

★ Survey questions:
☆ Is there a ‘trickle down’ effect from IFRS to SME financial reporting in member states?
☆ If so, to what extent?
☆ Is SME accounting being influenced by IFRS?
★ 96 main accounting treatments across 6 member states
★ Why is this important?
☆ New and amended IFRS standards might not be appropriate for SMEs
☆ SME accounting in Europe is not only framed under the Directive requirements
EFAA Survey ‘Trickle Down’ - outcomes to date

- 47% instances of trickle down effect observed
- 63% of the accounting treatments comply with IFRS
- High trickle down effect identified for:
  - IAS 12 Income taxes
  - IAS 19 Employee Benefits (pension accounting)
  - IAS 36 Impairment of Assets
  - IAS 38 Intangible Assets
EFAA Survey ‘Trickle Down’ - draft outcomes

★ Decreasing or increasing trickle down trend hard to conclude

★ New or amended IFRS will most likely affect SME accounting

★ Growing accounting differentiation between medium-sized, small and micro companies
Integrated Reporting and SMEs – why is it so relevant?

★ High value intangible assets are not on the balance sheet

★ Tangible benefits of <IR> for SMEs (better access to finance, employee motivation, etc.)

★ Specific <IR> applications for SMEs:
  ★ Transfer of business/succession planning
  ★ Tendering processes
  ★ New business financing requirements/start-ups
  ★ Satisfying external stakeholders needs (understanding the business model, how is income being generated, etc.)
Integrated Reporting and SMEs – activities

★ EFAA article 2015 “Integrated Reporting or Thinking, is it just for big companies?”

★ EFAA Conference in Madrid June 2016 ‘Changing Standards, Innovation and Market Regulation’ with IIRC contribution

★ EFAA recommends to SMPs should challenge their clients to consider <IR> or Integrated Thinking
Thank you