

Existing IFRSs include some differences for non-public entities

- BC22 IFRSs include several differences for entities whose securities are not publicly traded. For example:
- (a) IFRS 8 *Operating Segments* requires disclosure of segment information only by entities whose debt or equity instruments are traded or registered for trading in a public market.
 - (b) IAS 27 *Consolidated and Separate Financial Statements* exempts some parent entities from preparing consolidated financial statements if their debt or equity instruments are not traded in a public market. Similar exemptions are in IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.
 - (c) IAS 33 *Earnings per Share* requires presentation of earnings per share data only by entities whose ordinary shares or potential ordinary shares are publicly traded.

Different users' needs and cost-benefit considerations

- BC23 The *Framework* (paragraph 12) states:

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

In establishing standards for the form and content of general purpose financial statements, the needs of users of financial statements are paramount.

- BC24 Users of financial statements of SMEs may have less interest in some information in general purpose financial statements prepared in accordance with full IFRSs than users of financial statements of entities whose securities are listed for trading in public securities markets or that otherwise have public accountability. For example, users of financial statements of SMEs may have greater interest in short-term cash flows, liquidity, balance sheet strength and interest coverage, and in the historical trends of earnings and interest coverage, than they do in information that is intended to assist in making forecasts of an entity's long-term cash flows, earnings and value. However, users of financial statements of SMEs may need some information that is not ordinarily presented in the financial statements of listed entities. For example, as

an alternative to the public capital markets, SMEs often obtain capital from shareholders, directors and suppliers, and shareholders and directors often pledge personal assets so that the SME can obtain bank financing.

- BC25 In the Board's judgement, the nature and degree of the differences between full IFRSs and an IFRS for SMEs must be determined on the basis of users' needs and cost-benefit analyses. In practice, the benefits of applying accounting standards differ across reporting entities, depending primarily on the nature, number and information needs of the users of their financial statements. The related costs may not differ significantly. Therefore, consistently with the *Framework*, the Board believed that the cost-benefit trade-off should be assessed in relation to the information needs of the users of an entity's financial statements.
- BC26 The Board faced a dilemma in deciding whether to develop an IFRS for SMEs. On the one hand, it believed that the same concepts of financial reporting are appropriate for all entities regardless of public accountability—particularly the concepts for recognising and measuring assets, liabilities, income and expenses. This suggested that a single set of accounting standards should be suitable for all entities, although it would not rule out disclosure differences based on users' needs and cost-benefit considerations. On the other hand, the Board acknowledged that differences in the types and needs of users of SMEs' financial statements, as well as limitations in, and the cost of, the accounting expertise available to SMEs, suggested that separate standards for SMEs are appropriate. Those separate standards could include constraints such as linkage back to the *Framework*, consistent definitions of elements of financial statements and focus on the needs of users of financial statements of SMEs. On balance, the Board concluded that the latter approach (separate standards) was appropriate.

Adoption of an IFRS for SMEs does not imply that full IFRSs are not appropriate for SMEs

- BC27 The Board believes that the objective of financial statements as set out in the *Framework* is appropriate for SMEs as well as for entities required to apply full IFRSs. The objective of providing information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions is applicable without regard to the size of the reporting entity. Therefore, standards for general purpose financial statements of entities with public accountability would result in financial statements that meet