MEDIA RELEASE

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The South African Institute of Chartered Accountants

SA first country to adopt proposed International Financial Reporting Standards for SMEs

Johannesburg, Wednesday, October 3, 2007 – South Africa today became the first country in the world to formally adopt the International Accounting Standards Board (IASB) proposed new and less stringent reporting requirements for Small and Medium-sized Entities (SMEs).

This follows the decision by the Accounting Practices Board's (APB), administratively supported by the South African Institute of Chartered Accountants (SAICA), to approve the proposed International Financial Reporting Standards (IFRS) for SMEs as a Statement of Generally Accepted Accounting Practice (GAAP) for SMEs in South Africa.

These proposed *IFRS for SMEs*, was issued as an exposure draft (ED) in May this year by the IASB. South Africa is the first country to adopt it as a Statement of GAAP in the exact format of the IASB's ED.

Significantly, this Statement of GAAP will reduce the reporting burden on SMEs, providing them with a simpler accounting framework – a standard that is easier to understand and apply, and provides relief from many of the disclosures currently required.

Ignatius Sehoole, SAICA's Executive President says that when the Corporate Laws Amendment Act (CLAA), 2006 was signed into law on 7 April 2007, it was apparent that differential reporting was becoming a reality in SA.

"SAICA has in any case been campaigning for differential reporting for years. The new reporting requirements come in the wake of the amended definition of companies in the CLAA to those that are either 'widely held' or 'limited interest'. Compliance with the Statement of GAAP for SMEs will ensure compliance with the existing Companies Act, in case the CLAA is not given an effective date."

In its circular outlining the motives for approving the Statement of GAAP for SMEs, SAICA addresses:

- Current and future classifications of companies in the context of the Corporate Law reform process;
- The scope and effective date of the Statement of GAAP for SMEs;
- Financial reporting frameworks for 'limited interest companies';
- Development of the Statement of GAAP for SMEs;
- Some areas to be aware of in applying the Statement of GAAP for SMEs; and
- Audit reporting considerations.

The CLAA defines a company as 'widely held' if its articles provide for unrestricted transfer of its shares and permit it to offer shares to the public; if it decides to become a widely held company; and if it is a subsidiary of a widely held company.

A 'limited interest' company is defined as one that is not widely held.

In addition, the CLAA introduces a new section (285A) to the Companies Act, 1973, providing that a limited interest company must comply with:

- Accounting standards developed for limited interest companies;
- The provisions of the Act applicable to limited interest companies; and
- Requirements to prepare financial statements that fairly present the financial position and the results of operations of the company.

Sehoole says that because accounting standards have not yet been developed for limited interest companies, a CLAA transitional provision requires a limited interest company to prepare its financial statements in accordance with accounting practices adopted by that company. Such practices had to comply with the framework for the preparation and presentation of financial statements included in financial reporting standards.

The Statement of GAAP for SMEs states that it is intended for use by entities that do not have public accountability and publish general purpose financial statements for external users such as owners not involved in managing the business, existing and potential creditors and credit rating agencies. Entities have public accountability if they have listed debt or equity or hold assets in a fiduciary capacity for a broad group of outsiders such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity.

“The new financial reporting framework may be applied by ‘limited interest’ companies, as defined in the CLAA, if they do not have public accountability as defined in the Statement of GAAP for SMEs,” says Sehoole.

“Entities other than companies where legal provisions or other regulations require compliance with a specific financial reporting framework (other than Statements of GAAP), can apply the Statement of GAAP for SMEs provided that they don’t have public accountability (as defined in the Statement of GAAP for SMEs).”

Sue Ludolph, SAICA’s Project Director for Accounting, says financial reporting frameworks applied by companies in SA have either been SA Statements of GAAP or IFRS.

“Numerous preparers have called for simplified financial reporting for smaller companies. The CLAA introduced a possibility of a different financial reporting framework for limited interest companies.”

She says the IASB’s ED released earlier this year proposed disclosure relief, simplification of many recognition and measurement criteria, removal of choices for accounting treatment, and elimination of topics irrelevant to SMEs.

”There is the task of developing and providing training material ahead of the rest of the world and setting up the necessary infrastructure to do so. SAICA is in the process of providing such support,” says Ludolph.

Graeme Berry, a member of the Accounting Practices Committee (technical advisory body to the APB) and partner at Deloitte, says that the Statement of GAAP for SMEs will be recognised as fair presentation in the Independent Regulatory Board for Auditors (IRBA) financial reporting framework.

“An auditor can express an opinion that financial statements are ‘presented fairly’ in all material respects in accordance with the Statement of GAAP for SMEs,” says Berry, who notes that when an auditor issues an audit report on an entity applying the new financial reporting framework, the audit report should identify the accounting framework as the "Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities".

Berry points out that the audit report may not make reference to "IFRS for SMEs" because the IASB has not yet issued the final standard.

"The new financial reporting requirements for SMEs puts us in line with internationally recognised standards and will enhance the development of our economy, and promote investment into the country," says Berry.

"Limited interest companies" within the scope of the Statement of GAAP for SMEs may only apply the Statement of GAAP for SMEs to annual financial statements for financial years ending on or subsequent to 31 December 2005.

For entities other than companies whose financial reporting framework is not set out by legal provisions or other regulations, the Statement of GAAP for SMEs may be applied to annual financial statements that are issued on or after 1 October 2007.

ENDS

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