

IFRS survey 2009 for private companies

More than half (51%) of small and mid-size private company respondents (revenues less than \$1 billion) support separate accounting standards for private and public companies

A Deloitte survey of private companies shows many respondents support separate accounting standards for private and public companies, yet a significant number of respondents are still unaware of the International Accounting Standards Board's (IASB's) newly issued standard, International Financial Reporting Standards for Small and Medium-Sized Entities ("IFRS for SMEs"). Interest among private companies for having a separate set of accounting and financial reporting standards could increase further with more education.

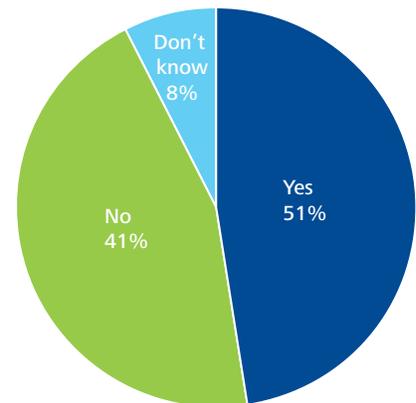
The Deloitte survey of more than 220 private company financial professionals was conducted in June 2009 to gather data and information about the challenges of current U.S. GAAP and the level of interest in IFRS for SMEs. Financial professionals of private companies from various industries and sizes responded — with small and mid-size companies (revenues less than \$1 billion) representing approximately 77% of the total.¹ More than half (51%) of small and mid-size company respondents (or "SME respondents") believe that there should be separate accounting standards for public and private companies.

Smaller companies support separate standards somewhat more vigorously: 55% of respondents from companies with less than \$100 million in revenues favoring separate standards. Support lessened among larger private companies, with 26% of respondents from companies with more than \$1 billion in revenues in favor.

A financial reporting alternative for SMEs

The IASB project to develop separate financial reporting standards for private companies began in 2003, although efforts to address the reporting issues unique to SMEs have been ongoing for many years. In July 2009, the IASB issued IFRS for SMEs, a simplified, self-contained set of accounting principles intended to be appropriate for smaller, non-listed companies. U.S. private companies now have another option for financial reporting — an alternative to U.S. Generally Accepted Accounting Principles (U.S. GAAP) and full IFRS.

Believe there should be separate accounting standards for private and public companies, according to respondents from small and mid-size private companies



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¹ The survey population was stratified based on the demographics that are representative of the entities the IASB focused on in developing IFRS for SMEs. In general, the group "SMEs" is not defined based on a particular quantitative threshold.

Survey highlights

Small and mid-size private companies (referenced here as “SME respondents”) include companies with less than \$1 billion in revenues.

- 51% of SME respondents believe that there should be separate accounting standards for public and private companies.
- 43% of SME respondents are not aware or don’t know of the IASB’s standard IFRS for SMEs, indicating the need for more education.
- SME respondents view fair value measurement (42%), accounting for income taxes (23%), and consolidations (10%) as the top areas of U.S. GAAP in need of simplification.
- 10% of SME respondents either currently use IFRS or would consider adopting IFRS for SMEs in the near term, while 63% would adopt when required.

IFRS for SMEs are based on full IFRS, which are designed for publicly listed companies. By deriving fundamental concepts from full IFRS and adapting the standards according to users’ needs and cost-benefit considerations, the IASB has produced more simplified and tailored standards for private companies — totaling approximately 250 pages. Given the complexity of U.S. GAAP, this may be an attractive alternative for many private companies. Potential benefits associated with IFRS for SMEs include: simplification of reporting — especially for recognition and measurement treatments in certain areas, such as consolidation and fair value; potentially greater comparability of performance for investors, lenders, and other financial statement users; and a reduced burden of financial statement preparation for private entities.

More education needed

Many U.S. private companies are still unaware of IFRS for SMEs. Forty-three percent (43%) of respondents from SME companies answered “no” or “don’t know” when asked about their awareness of the IASB project on SMEs. These results indicate a need for more education about IFRS for SMEs.

Sixty-two percent (62%) of all private company respondents would consider adopting IFRS for small and medium-sized entities when required. Since U.S. private companies are not required (absent, for example, contractual provisions, such as in loan agreements) to use a particular set

of accounting standards, IFRS for SMEs may now be a viable option and be used instead of U.S. GAAP. Put a different way — that almost two-thirds of respondents would not consider adopting IFRS unless required — may be a reflection of how little is currently understood about the standard. Furthermore, according to the survey, 11% of all respondents are either using IFRS already or will in the near term. Perspectives could change as more private companies learn about the standard and what it could mean for them.

With the issuance of IFRS for SMEs, the level of awareness and interest in adoption among private companies can be expected to grow.

Private companies attuned to IFRS for SMEs, and its potential benefits may now have an opportunity to take advantage of this development to drive value for their organization’s financial reporting. A more user-friendly set of standards — IFRS for SMEs — may offer companies an opportunity to reduce costs, and potentially provide better information and more transparency to users of private company financial information.

Challenges with U.S. GAAP

Over the last few years, U.S. GAAP requirements have taken on an increasing level of complexity. This trend has been a challenge for many companies, public and private, as well as for financial statement users. In 2008, the SEC’s advisory Committee on Improvements to Financial Reporting (CIFR) issued its final report and recommendations geared toward increasing the usefulness of financial information while reducing the complexity of the financial reporting system. In the report, CIFR noted that the complexity in U.S. GAAP was driven in large part by the volume of formal and informal accounting guidance. The increase in complexity has likely contributed to higher compliance costs, especially for private companies.

Top areas of U.S. GAAP that were not considered relevant to decision-making among SME respondents include: share-based payments (this may be because private companies typically don’t grant shares), FIN 46R — consolidations, and fair value measurement. Those same respondents viewed fair value measurement, accounting for income taxes, and FIN 46R — consolidations as the top three areas of U.S. GAAP in need of simplification. Accounting for income taxes was an issue selected by respondents perhaps because of the complexity of U.S. requirements — and in particular, the accounting for uncertain tax positions. The IASB has addressed many of these topical issues in developing IFRS for SMEs, adapting them from full IFRS.

Survey questions and results follow.

Survey results

	Total private company respondents (225)*	Small and mid-size private company respondents (170)*
1. Which areas of U.S. GAAP are not considered relevant to your decision making? Please select all that apply.**		
Fair value measurement	28%	28%
FIN 46R - Consolidations	35%	32%
Accounting for Income Taxes	26%	27%
Revenue Recognition	5%	5%
Share Based Payments	65%	54%
Lease Accounting	26%	24%
Intangible Assets	27%	26%
Other, please specify	5%	2%
2. Which area of accounting do you see as needing the greatest degree of simplification?		
Fair value measurement	40%	42%
FIN 46R - Consolidations	14%	10%
Accounting for Income Taxes	21%	23%
Revenue Recognition	8%	8%
Share Based Payments	4%	5%
Lease Accounting	7%	8%
Intangible Assets	5%	4%
Other, please specify	1%	0%
3. Do you believe that there should be separate accounting standards for public vs. private companies?		
Yes	45%	51%
No	49%	41%
Don't know	6%	8%
4. Are you aware of the International Accounting Standards Board (IASB) draft of International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)?		
Yes	59%	57%
No	39%	40%
Don't know	2%	3%
5. When would you consider adopting IFRS for Small and Medium-sized Entities?		
Already using IFRS	4%	3%
In the near term	7%	7%
When required	62%	63%
No intention	12%	12%
Don't know	15%	15%

* Value rounded up.

** Note: Total exceeds 100%, as respondents could select more than one option.

	Total private company respondents (225)*
6. Is your company privately held?	
Yes	100%
No	0%
7. My company is:	
Closely held	45%
Family owned	29%
Fund owned, in part	12%
Fund owned, in total	8%
Don't know, not applicable	6%
8. Who are the primary users of your financial statements?	
Management	39%
Owners	19%
Lenders	34%
Vendors	0%
Other, please specify	8%
9. What basis of accounting do you currently use for financial reporting purposes?	
U.S. GAAP	88%
Modified U.S. GAAP	2%
IFRS	3%
Cash	1%
Tax	2%
Other, please specify	4%
10. Does your company choose not to implement some U.S. accounting standards and accept a qualified audit opinion?	
Yes	5%
No	89%
Don't know, not applicable	6%
11. Which area requires the most time for report preparation?	
Footnotes	26%
Research	14%
Audit	29%
Basic Accounting	9%
Disclosure	21%
Other, please specify	0%

	Total private company respondents (225)*
12. How many people are employed within your accounting group?	
None	0%
One to five (1-5)	32%
Six to ten (6-10)	20%
Eleven to twenty (11-20)	15%
Greater than 20	33%
13. How many CPAs are there in your accounting group?	
None	6%
One to five (1-5)	64%
Six to ten (6-10)	15%
Eleven to twenty (11-20)	6%
Greater than 20	9%
14. Identify the primary industry of your company:	
Financial services	20%
Health services and government	3%
Consumer and industrial products	30%
Energy and resources	5%
Technology, media, and telecommunications	13%
Other, please specify	29%
15. What were your company's total sales for the last fiscal year?	
Less than \$100MM	42%
\$100MM to less than \$500MM	22%
\$500MM to less than \$1billion	12%
Greater than \$1billion	24%

* Value rounded up.

** Note: Total exceeds 100%, as respondents could select more than one option.

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