

## **MICRO GAAP**

### **Introduction**

SAICA has for the last four years investigated the development of a Framework for Non-Public Entities (FfNPE) or a so-called Micro GAAP/third tier financial reporting framework as a consequence of member requests to do so.

In 2008, the Micro GAAP working group was formed and embarked on a project to develop the FfNPE. The Micro GAAP working group has since its formation issued three exposure drafts, namely ED 257 –*Framework for Non-public Entities* (2009), ED 275 – *Financial Reporting Framework for Non-public Entities* (2009) and ED 285 – *Financial Reporting Framework for Non-public Entities* (2010), for public comment.

As a result of deliberations and decisions made by the Accounting Practices Committee, the Accounting Practices Board and the Financial Reporting Standards Council, a decision has been made by SAICA not to proceed with the issuing of the proposed FfNPE, either as a standard or a SAICA guide. Therefore all the above EDs have been withdrawn from the SAICA website.

### **Background and reasons**

#### **International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)**

The Corporate Laws Amendment Act (CLAA) was signed into law on 17 April 2007 and became effective on 14 December 2007. The CLAA classified companies either as ‘widely held’ or ‘limited interest’.

In order to meet member needs for a simpler financial reporting framework than IFRS, for small and medium companies, the Accounting Practices Board (APB) on 07 August 2007 approved the International Accounting Standards Board’s (IASB’s) exposure draft on *IFRS for SMEs*, as a South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities (Statement of GAAP for SMEs) for limited interest companies as defined in the CLAA.

On 9 July 2009 the IASB issued the *IFRS for SMEs*. After significant comments from South Africa and other countries the final *IFRS for SMEs* standard was a lot simpler than the exposure draft. On 13 August 2009, the Accounting Practices Board issued the *IFRS for SMEs* as a Statement of GAAP “IFRS for SMEs”.

The *IFRS for SMEs* may be applied by:

- a non-profit company;
- a private company;
- a personal liability company; and
- a public company -

as defined in the Companies Act No.71 of 2008 (Companies Act) if an entity does not have public accountability as defined in section 1 of the *IFRS for SMEs* and based on the company's public interest score (PI Score).

The Statement of GAAP for SMEs has a finite life, as a result of *IFRS for SMEs* being issued. The APB allowed the withdrawal date for the Statement of GAAP for SMEs to be for year-ends ending up to and including one year after the effective date of the Companies Act (1 May 2012). From 1 May 2012, companies applying the Statement of GAAP for SMEs will be required to change to either IFRS or *IFRS for SMEs*.

*IFRS for SMEs* is a 230-page self-contained standard tailored for the needs and capabilities of smaller businesses. Many of the principles in full IFRSs for recognising and measuring assets, liabilities, income, and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced. To further lessen the reporting burden on SMEs, revisions to IFRS will be limited to once every three to four years.

### **Framework for Non- public Entities (FfNPE)**

Despite the fact that the APB issued the ED on *IFRS for SMEs* (Statement of GAAP for SMEs), which was simpler than IFRS, there still existed a demand for a simpler framework for micro entities as it was believed by some constituents that the Statement of GAAP for SMEs was too complex for micro entities. Prior to the publication of the final standard on *IFRS for SMEs* in 2009, the Micro GAAP working group developed a Framework for Non- public Entities (FfNPE) which was exposed for comment on three occasions. As noted above, the final standard on *IFRS for SMEs* was far simpler than the ED on *IFRS for SMEs* as the IASB had made further simplifications to the ED on *IFRS for SMEs* before the final standard was issued.

#### *Accounting Practices Committee (APC):*

SAICA's Accounting Practices Committee (APC) provided comments on all three exposure drafts to the Micro GAAP working group and it believed that a third financial reporting framework was not necessary as it would create confusion in the market. It was also of the view that a micro entity that was not compelled to comply with IFRS or *IFRS for SMEs*, could apply either tax-based accounting or select its own accounting policies. The APC was also of the view that the FfNPE was not sufficiently simpler than *IFRS for SMEs* and therefore competed with *IFRS for SMEs* and that it was not a fair presentation framework, despite the FfNPE stating it was. If an audit was required, a fair presentation framework is necessary. As an alternative to the FfNPE, the APC had suggested that a guide on applying IFRS for SMEs in a micro entity could assist such entities sufficiently and make it easier for these entities to use *IFRS for SMEs*.

#### *Accounting Practices Board (APB)*

At the May 2011 APB meeting, the APB considered the exposure draft of the FfNPE and the APC's comments thereon. Although there were some APB members who supported a simple third financial reporting framework, they requested that the APC, the Micro GAAP working

group and SAICA work together to resolve the APC concerns before a final FfNPE was tabled at the next APB meeting for issue as a Statement of GAAP (SA GAAP).

### **Financial Reporting Standards Council (FRSC)**

The Companies Act imposed an obligation on the Minister of Trade & Industry (Minister) to establish a body known as the FRSC. The FRSC is the legally constituted standard-setter and its function is to advise the Minister on matters relating to financial reporting standards. The FRSC was formed in late 2011 and has had two meetings to date. As a consequence of the establishment of the FRSC, the fundamental motivation for the APB's existence has fallen away.

### **Financial Reporting Frameworks**

The Companies Regulations, 2011 ("the Regulations"), prescribe the reporting frameworks based on the calculation of each individual company and close corporation's (PI Score) and permit the use of either IFRS, IFRS for SMEs, SA GAAP or no prescribed framework, as follows:

- PI Score > 100 framework = IFRS, IFRS for SMEs, SA GAAP
- PI Score < 100
- FS independently compiled, framework = IFRS, IFRS for SMEs, SA GAAP
- FS internally compiled = no prescribed framework prescribed

Based on the Companies Act Regulations the only companies and close corporations that would be able to use the proposed Framework for Non-Public Entities would be companies and close corporations with a PI Score below 100 and who prepare their own financial statements. This has significantly impacted the possible users of the Framework.

### **FRSC decision on a third Framework for companies with a PI Score < 100**

At the meeting of the FRSC held on 2 February 2012 the principle of a third framework for companies with a PI Score < 100 was debated. The unanimous decision of the FRSC members was not to issue a framework for this level and impose a burden on this level of company, but rather to allow micro entities to use their own accounting policies or IFRS for SMEs at their own election.

### **Effect on SA GAAP**

At the APB meeting held on 28 February 2012, at which the chairman and some members of the FRSC were also present, it was decided that the APB and the FRSC would work closely together in determining a smooth transition of the standard-setting function and the financial reporting standards. As a result, the following was decided:

- that SA GAAP will be withdrawn and will cease to apply in respect of financial years commencing on or after 1 December 2012; and

- the APB would not issue further SA GAAP statements and would consider the process of winding up.

**Conclusion:**

Based on the decisions of the APB and FRSC as well as the Companies Act Regulations implications, a decision was taken to withdraw ED 257, ED 275 and ED 285 and to discontinue any further development of a possible third tier framework at this stage.