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News release

Grant Thornton welcomes new global IFRS standard for privately held businesses

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Foo Kon Tan Grant Thornton

The new International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) could transform the way privately held businesses (PHBs) around the world prepare their accounts said Grant Thornton, as it welcomed the publication of the global standard by the International Accounting Standards Board (IASB). The global accounting organisation believes the new standard offers a unique opportunity to create a standardised accounting framework for privately held businesses throughout the world.

IFRS for SMEs provides a substantially simplified set of internationally recognised accounting principles for PHBs. Based on the full IFRSs, which were developed primarily for listed companies, the new standard will particularly benefit businesses that operate internationally. Individual countries will now consider the new standard, consult with local stakeholders and decide whether and when it should be used in their jurisdiction. Individual countries will also have discretion over which entities the new standard will apply to - unlisted subsidiaries of listed multinationals, for example, could be included in the scope.

Kon Yin Tong, a partner of Foo Kon Tan Grant Thornton said, "Taking the strategic direction announced by the Accounting Standards Council (ASC) of Singapore's intention for a full alignment of the Singapore FRS with IFRS by 2010, it will be a logical step for our regulators to adopt a simplified accounting standard for SMEs. It is, however, critical that clear parameters and definitions be set to define the population of companies that can adopt this new standard, which is very much welcome and which would give much needed relief to many private companies."

Yin Tong explains, "Private entities around the world, including Singapore, who currently have to comply with full financial reporting standards will be pleased to find that the new standard is about one tenth of the length of full set and that the number of potential disclosure items will be nearer to 300 than the current 3,000."

Alex MacBeath, global leader of privately held business services for Grant Thornton International added, "We believe the IFRS for SMEs will be particularly welcome in those countries (around 30 worldwide) that currently use full IFRS for all entities, listed and unlisted. In these countries, the pressure to reduce the administrative burden on SMEs will surely persuade governments to adopt the new standard, in some form, sooner rather than later. South Africa, for example, took the unusual step of adopting the simplified standard in its draft form so is effectively already using it."

Grant Thornton believes the case for adopting IFRS for SMEs will require more detailed assessment in those countries where PHBs still use local accounting standards (SME GAAPs). In the EU, for example, there are currently around 55 different SME GAAPs.

Converting to new accounting principles always involves some degree of financial and resource cost. Businesses and their advisers will have to learn new terminology and accounting techniques and make changes to their accounting software. Moreover, in some countries, a move away from existing SME GAAP will have implications for tax legislation and company law. Despite these challenges, Grant Thornton believes the short term disruption will be outweighed by the longer term benefits for many PHBs around the world.

Alex MacBeath explains, "The potential of this new standard is that we move to a situation where lenders and investors are able to assess company performance from financial statements that use directly comparable, authoritative, internationally recognised principles, regardless of the country of origin of the company itself. This could improve access to capital and help decision-making on cross-border deals, quite apart from reducing the administrative burden on PHBs."

Grant Thornton is encouraging PHBs to make their views known in their own jurisdiction, as many countries are now likely to launch consultation exercises.

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About Foo Kon Tan Grant Thornton:

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