Focus Group Discussion (FGD) on "Implementation of IFRS for SMEs"

Dhaka Chamber of Commerce & Industry (DCCI) organized a Focus Group Discussion (FGD) titled "Implementation of IFRS for SMEs" on 22nd March 2025. The discussion tried to identify practical solutions for simplifying International Financial Reporting Standard (IFRS) adoption and maximizing its benefits for SMEs, ultimately fostering enhanced corporate governance and sustainable business growth.

Taskeen Ahmed, President of Dhaka Chamber chaired the event. The keynote paper was presented by Sk. Md. Tarikul Islam FCA, Partner, Hoda Vasi Chowdhury & Co. Chartered Accountants. Dr. Mohammad Abu Yusuf, Chairman (Acting), Financial Reporting Council was present as the Chief Guest while Md. Amir Uddin, Executive Director, Bangladesh Bank was present as the Special Guest. Among others, Nawshad Mustafa, Director, SME & Special Programmes Department, Bangladesh Bank and Mr. Mohammad Jahangir Hossain, General Manager of SME Foundation were present as Distinguished Panel Discussants.

Remarks of Taskeen Ahmed, President, Dhaka Chamber

- Income Tax Act 2023, mandates compliance with the International Financial Reporting Standard (IFRS) and International Accounting Standard (IAS).
- Bangladesh's low tax collection remains a concern, with only 3.75 million tax returns filed out of 11.27 million TIN holders between July 1, 2024, and February 6, 2025. Of these, 1.34 million were submitted online, contributing to a total income tax collection of Tk. 565.4 billion.
- Notably, 88.22% of revenue came from Dhaka (69.55%) and Chattogram (18.67%), underscoring an over-reliance on these two regions and a significant imbalance in the overall tax net.
- SMEs often rely on traditional accounting systems rather than transitioning to standardized reporting.
- SMEs face several challenges in adopting IFRS. Limited financial capacity, a shortage of skilled personnel, and compliance costs create significant barriers.
- The adoption of IFRS for SMEs provides a structured framework that enhances financial transparency, streamlines reporting, facilitates integration into the formal economy, strengthens access to finance and investment, boosts global competitiveness, and reduces the risks of financial misreporting.

Keynote of Sk. Md. Tarikul Islam FCA, Partner, Hoda Vasi Chowdhury & Co. Chartered Accountants

- Capacity building, training for accountants and auditors, and initial transition costs will be key challenges in implementing IFRS for SMEs.
- SMEs are defined in accordance with the National Industrial Policy-2022, based on investment amount (excluding land and building) and the number of employees.
- Public Interest Entities (PIEs), as per the Financial Reporting Act 2015 and FRC regulations, will include organizations with significant public and economic impact due to their size, nature, or public accountability.
- Under the revised Bangladesh Bank policy, 27% of loans will be allocated to CMSMEs to promote employment generation, with entrepreneurs engaged in f-commerce and e-commerce being eligible for loans up to Tk 5 lakh under the CMSME scheme.
- Small traders without trade licenses will qualify for loans under the CMSME scheme.
- IFRS for SMEs will define small and medium-sized entities as those that do not have public accountability and publish general-purpose financial statements for external users.
- Public accountability will be determined based on whether an entity's debt or equity instruments are publicly traded or in the process of issuance, or if the entity holds assets in a fiduciary capacity, such as banks or insurance companies.
- Bangladesh Bank defines SMEs based on the value of fixed assets (excluding land and buildings) and the number of employees, with specific criteria for manufacturing, service, and trading sectors as per SME Credit Policies and Programmes by Bangladesh Bank.

The criteria set by the FRC to be considered a Public Interest Entity (PIE) are as follows:

- Listed Companies: Any company listed on the stock exchanges (DSE & CSE).
- Financial Institutions: Banks, insurance companies, non-banking financial institutions (NBFIs), and microfinance institutions (MFIs).
- Large Private Companies: Companies exceeding certain thresholds in revenue (annually Tk 50 crore or more), assets (Tk 30 crore or more), liabilities (Tk 10 crore or more), or employees (at least 50).
- Public Sector Entities (PSEs): State-owned enterprises that impact public financial stability.
- Other Organizations: Entities that manage public funds, pension funds, or large non-profit organizations.

Section 1: Small and Medium-Sized Entities (SMEs)

- Securities are not publicly traded.
- Do not hold assets in a fiduciary capacity.
- Are not financial institutions.
- Are not subsidiaries of a listed company.
- Are required to produce general-purpose financial statements.

Section 2: Concepts and Pervasive Principles

Category	IFRS for SMEs	Full IFRS
Asset	Resource controlled by the entity; expected future economic benefits.	Same as IFRS for SMEs. [IFRS Framework, paras 49(a), 53-59]
Liability	Present obligation from past events; settlement expected to result in economic benefits and resource outflow.	Same as IFRS for SMEs. [IFRS Framework, paras 49(b), 60-64]
Income	Increases in economic benefits during the reporting period; enhancements of assets or decreases in liabilities. Equity increases, excluding equity investor contributions.	Similar to IFRS for SMEs. [IFRS Framework, para 70(a)]
Expenses	Decreases in economic benefits due to outflows, asset depletions, or liabilities, resulting in equity decreases, except for equity investor distributions.	Similar to IFRS for SMEs. [IFRS Framework, para 70(b)]
Qualitative Characteristics	Understandability and relevance, materiality and reliability, substance over form, prudence and completeness, comparability and timeliness, balancing benefit and cost.	Same as IFRS for SMEs; with more focus on detailed & complex information due to diverse needs of users.
Measurement bases		
	Items are typically accounted for at historical cost, while certain financial instruments, investments, property, agricultural assets, and share-based payments are valued at fair value.	Items are measured at historical cost, fair value, current cost, realizable value, and present value, with extensive use of the fair value method.

Incentives for SMEs:		
Aspects	**Globally**	**Locally**
Corporate Tax Rates	Global SMEs often enjoy lower corporate tax rates compared to large corporations in countries such as the UK, USA, and Australia.	SMEs are provided with reduced corporate tax rates in certain sectors as well as tax holidays for specific industries and regions.
R&D Tax Credits	It is widely available in developed countries for instance, Australia, the USA.	R&D incentives are minimal.
Export Tax Incentives	SMEs being export-oriented receive subsidies or reduced tax rates.	Cash incentives in a certain range on Free on Board (FOB) value for export-oriented SMEs.
Startup Incentives	Tax exemptions are provided to newly established SMEs in regions, particularly Singapore and Ireland.	SME startups in specific sectors may benefit from tax holidays or reduced rates.
Tax on Imports	SMEs are provided with reduced tariffs on imported machinery and raw materials to promote growth.	Similar sort of incentives is provided with reduced duties on machinery and raw materials for export-oriented industries.
Special Schemes	Women entrepreneurs and green businesses receive specific tax benefits in many developed nations.	SMEs in BD receive refinancing schemes and special facilities for women entrepreneurs, with limited focus on green industries.
VAT/Indirect Taxes	SMEs are benefitted from reduced VAT or exemptions globally.	Specific SME categories are provided with reduced or exempted VAT in Bangladesh.

Panel Discussion

- SME Foundation provided accounting software to some SME entrepreneurs, but many failed to implement it due to a lack of skills and interest.
- There is a significant shortage of trained and skilled accounting professionals in the country, especially in the SME sector.
- IFRS is currently implemented in 80 countries worldwide. Bangladeshi businesses are also required to adopt it.
- The Financial Reporting Act mandates that enterprises of all sizes prepare audited financial reports; however, most small and medium-sized firms in Bangladesh lack the necessary manpower and expertise to prepare standardized reports complying with the IFRS.
- To implement IFRS effectively, the first step should be to create a supportive environment for SMEs, including conducting a cost-benefit analysis. If the benefits outweigh the costs, SMEs will be more inclined to adopt IFRS voluntarily.

Open Discussion Session

- Need uniformity in the definition of SMEs across different policies and regulations of various institutions. The lack of a standardized definition creates inconsistencies in policy implementation and regulatory compliance.
- If a company is a limited company but classified as an SME, compliance with IFRS may be mandatory for that SME. However, for non-SME entities, this requirement may not be compulsory.
- The Income Tax Act should explicitly differentiate entities by stating that those falling under the definition of Public Interest Entities (PIEs) must adhere to the full version of IFRS, while SMEs should be allowed to use a concise version that aligns with their scale and operational capacity.
- Bangladesh Bank should ensure stricter monitoring to verify whether SME funds are being utilized appropriately.
- Currently, the central bank relies on commercial banks for oversight and conducts occasional mobile monitoring and random checks. This monitoring mechanism needs to be improved to enhance accountability.
- To strengthen transparency and compliance in financial reporting and SME funding mechanisms, ensuring regulatory clarity and accountability.

Remarks by Md Amir Uddin, Executive Director, Bangladesh Bank

- The implementation of IFRS should aim to enhance the global reputation of local SME entrepreneurs.
- Providing targeted training is crucial to equip SME entrepreneurs with the necessary skills for effective IFRS adoption.
- To foster adoption and compliance, SME entrepreneurs must be well-informed about the benefits of implementing IFRS.

Remarks by Dr. Mohammad Abu Yusuf, Chairman (Acting), Financial Reporting Council

- Compliance with IFRS is essential for SMEs to align with international standards and improve their global competitiveness.
- Local SMEs encounter significant challenges in adopting IFRS, including limited knowledge, a shortage of skilled professionals, complex procedures, and lack of awareness.
- Enhancing the capacity of SMEs through targeted support and training is critical to facilitate IFRS adoption.
- Prioritizing IFRS implementation will help SMEs improve tax compliance, access capital from financial markets, and strengthen their position in international trade agreements.

Summary of Recommendations

- Develop sector-specific customized accounting software to simplify IFRS adoption for SMEs. Tailored accounting software can help address unique challenges in different sectors, ensuring a smoother transition to IFRS and making the process more accessible for SMEs.
- Focus on facilitation and training to support the successful implementation of IFRS.
- Tailored accounting software can ease the transition to IFRS, ensuring smoother adoption for SMEs.
- Facilitation and training are essential for enabling effective IFRS implementation. This helps to increase adoption rates, especially among SMEs with limited resources or experience with complex reporting standards.
- IFRS implementation should be designed in a way that does not disrupt the daily operations of the SME sector.
- As SMEs across the country adopt structured accounting practices, the government can expand the tax base, easing the pressure on Dhaka and Chittagong while fostering a more balanced and inclusive revenue system.
- While IFRS for SMEs is simpler than full IFRS, it still requires investment in training and regulatory alignment.
- Adopting international standards in SME financial reporting will significantly enhance tax revenue collection by improving compliance, reducing tax evasion, and bringing more businesses into the tax net.
- Expanding SME participation in the tax system is crucial for sustainable revenue growth.
- To simplify IFRS adoption and maximize its benefits, both for SMEs and the national economy, tailored strategies should be explored.
- Efforts should be made to make IFRS for SMEs more functional and adaptable, even with resource constraints.
- Offer lower tax and VAT rates for priority sectors, which could incentivize SME businesses and promote employment growth.
- Special tax incentives should be provided for R&D expenditures to encourage innovation in SMEs.
- Green businesses should receive special incentives, such as reduced tax rates, to promote sustainability.
- Tax breaks or incentives can be introduced for SME startups to support their growth and development.
- Simplify the tax filing process for SME businesses to ease the compliance burden and encourage participation.