

IFRS for SMEs Update

From the IFRS Foundation



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Welcome to the IFRS for SMEs Update

The IASB's IFRS for SMEs Update is a staff summary of news relating to the International Financial Reporting Standard for Small and Medium-sized Entities (*IFRS for SMEs*). All issues of the *IFRS for SMEs Update* are available in both HTML and PDF format on the IASB's [website](#). To subscribe use the link on the right.

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SME Implementation Group publishes three more draft Q&As

On 14 April 2011, the SME Implementation Group (SMEIG) published for public comment three more proposed question and answer documents (Q&As) on the IFRS for SMEs. The new draft Q&As cover the following topics:

- captive insurance subsidiaries
- interpretation of 'traded in a public market'
- investment funds with only a few participants.

The draft Q&As are open for public comment until 4 June 2011 and can be accessed at <http://go.ifrs.org/IFRS+for+SMEs+QandA>. The Q&As (excluding their Basis for Conclusions) are set out below for your reference.

Draft Q&A 2011/02

IFRS for SMEs Section 1, Issue 2
Captive insurance subsidiaries

The issue: A parent company that is not otherwise publicly accountable sets up a captive insurance subsidiary. The parent prepares consolidated financial statements that include the captive insurance subsidiary.

- Does the captive insurance subsidiary cause the group to be publicly accountable and hence not permitted to produce consolidated financial statements in accordance with the IFRS for SMEs?
- Is the captive insurance company itself a publicly accountable entity and hence not permitted to produce individual financial statements in accordance with the IFRS for SMEs?

The proposed response: Paragraph 1.4 lists insurance companies as an example of entities that typically hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses. This does not mean that all insurance companies are publicly accountable.

A captive insurance company is an insurance company that is set up with the specific objective of insuring the risks of a single entity (often its parent company) or the risks of entities within the same group of entities that are related to the captive insurance company (ie fellow subsidiaries or parent entities). Where this is the case, the captive insurance company holds assets in a fiduciary capacity for other group entities, which would not be considered a broad group of outsiders. Therefore the captive insurance entity itself is not publicly accountable, and it follows that the group will not be publicly accountable.

Occasionally a captive insurance company insures risks of entities in its own group and also sells insurance directly to other parties such as associates, joint ventures and unrelated third parties. In this case, if the other parties constitute a broad group of outsiders the captive insurance entity will be publicly accountable. Judgement must be applied in applying the concept 'broad group of outsiders'.

Where to download the draft Q&A: <http://go.ifrs.org/IFRS+for+SMEs+QandA>

Draft Q&A 2011/03

IFRS for SMEs Section 1, Issue 3
Interpretation of 'traded in a public market'

The issue: An entity has public accountability 'if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market' (paragraph 1.3). How broadly should 'traded in a public market' be interpreted in the definition of public accountability? For example, in Europe does it include only those markets defined as 'regulated markets' for the purpose of EU accounting regulations or does it also include other markets such as growth share markets and over-the-counter markets? Also, would a listing of convenience, ie a market on which a 'net asset value' price is published but no trading occurs in that market, make an entity publicly accountable?

The proposed response: 'Public market' is defined in paragraph 1.3 as 'a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets'. A 'public market' is not restricted to recognised and/or regulated stock exchanges. It includes all markets that bring together entities that seek capital and investors who are not involved in managing the entity. For a market to be public it must be accessible by a broad group of outsiders. If the instruments can only be exchanged between parties related to the entity, such as owner-managers, the instruments are not traded in a public market.

In some jurisdictions, a shareholder of a small or medium-sized entity is permitted by law to publicly advertise those shares for sale, for example, on a website or in a newspaper, without any active involvement (or sometimes without even the knowledge) of the entity issuing those shares. Since the entity did not take an affirmative step to permit public trading of shares (such as but not limited to share registration), such advertising by a shareholder does not, by itself, create an over-the-counter public market and would not prevent an entity that otherwise meets the criteria in Section 1 from using the IFRS for SMEs.

Furthermore, the availability of a published price does not necessarily mean that an entity's debt or equity instruments are traded in a public market. For example, in some countries over-the-counter shares have a quoted price but the market has no facility for trading and so buyers and sellers deal with each other directly. This would not constitute trading in a public market. However, if trading occurs only occasionally on a public market, even just a few times a year, this would constitute trading. In other words, the frequency of such transactions is irrelevant.

Where to download the draft Q&A: <http://go.ifrs.org/IFRS+for+SMEs+QandA>

Draft Q&A 2011/04

IFRS for SMEs Section 1, Issue 4

Investment funds with only a few participants

The issue: An entity is publicly accountable if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks (paragraph 1.3(b)). Does the criterion 'broad group of outsiders' mean that investment funds or similar entities that restrict their ownership to only a few participants are not publicly accountable under paragraph 1.3(b)?

The proposed response: The intention under paragraph 1.3 is to capture those entities that hold and manage financial resources entrusted to them by a broad group of outsiders, ie a broad group of investors or other resource providers who are not involved in the management of the entities. Such entities include, for example, mutual funds, unit trusts, undertakings for collective investments in transferable securities (UCITS), and other professionally managed collective investment programmes. Taking investment funds from the general public makes those entities publicly accountable. However, if an entity holds and manages financial resources for only a few investors then this, on its own, would not constitute a broad group.

Examples of entities that do not hold assets in a fiduciary capacity for a broad group of outsiders include:

- a. a venture capital fund with a few investors all or most of whom are directly involved in the fund's investment and management decisions;
- b. a pooled investment fund whose participants are limited to a parent, its subsidiaries and a few associates/ joint venture; and
- c. a pooled investment fund with only two or three participants.

In contrast, an investment fund that has a large number of outside investors who are not directly involved in the fund's investment and management decisions is likely to be publicly accountable even if those outside investors own a relatively small proportion of the fund's shares (or units). What is important is whether there is a broad group of outsiders contained within the total participants in the fund.

If a participant can demand reports tailored to meet its own information needs, this is evidence that the participant is not an outsider. On the other hand, if an investor can obtain only financial reports prescribed by law or regulation, this is evidence to indicate that the investor is an outsider. However such evidence is not conclusive on its own. It must be considered together with all other information when determining if participants are outsiders.

Where to download the draft Q&A: <http://go.ifrs.org/IFRS+for+SMEs+QandA>

In February 2011, the SME Implementation Group issued its first draft Q&A on the issue 'Use of the IFRS for SMEs in parent's separate financial statements'. The comment period for this Q&A has now closed.

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New member of the SME Implementation Group

Henri Fortin has replaced David Martinez as the World Bank's representative on the IASB's SME Implementation Group. Henri is Head of the World Bank's Centre for Financial Reporting Reform for Europe and the Central Asia Region. Below is a full list of names of the SMEIG members and their affiliations.

Chairman of SMEIG: Paul Pacter, Board member, IASB.
Practice fellow - IFRS for SMEs: Michelle Fisher

Name	Affiliation
Africa	
Dr Khalded A Hegazy <i>Egypt</i>	Partner, Crowe Dr. A. M. Hegazy & Co.
Omodele Robert Nicholas Jones <i>Sierra Leone</i>	Chair, Council for Standards of Accounting, Auditing, Corporate & Institutional Governance (CSAAG)
Bruce Mackenzie <i>South Africa</i>	Managing Partner, W Consulting
Frank Timmins <i>South Africa</i>	Head of Risk Management and Professional Standards Grant Thornton
Asia / Oceania	
Sanath Fernando <i>Sri Lanka</i>	Partner, Ernst & Young
Ying Wei <i>People's Republic of China</i>	Deputy Director-General, Accounting Regulatory Department of Ministry of Finance
Europe	
Steven Brice <i>United Kingdom</i>	Financial Reporting Advisory Partner, Mazars
Professor Robin Jarvis <i>United Kingdom</i>	Head of SME Affairs, The Association of Chartered Certified Accountants (ACCA)
Dr Claudia Mezzabotta <i>Italy</i>	Head of IFRS for SMEs Working Group of Ordine dei Dottori Commercialisti ed Esperti Contabili di Milano (ODCEC Milano), Italy; Director, Department of Accounting and Financial Reporting Standards (English classes), Scuola di Alta Formazione della Fondazione dei Dottori Commercialisti di Milano
Signe Moen <i>Norway</i>	Partner, PricewaterhouseCoopers
Hugo van den Ende <i>Netherlands</i>	Partner, PricewaterhouseCoopers Accountants N.V. Amsterdam
North America	
Ana Denena <i>United States</i>	Partner, UHY LLP
Thomas J Groskopf, CPA <i>United States</i>	Director, Barnes, Dennig & Co., Ltd.
Keith C Peterka	



<i>United States</i>	Professional Standards Group, Mayer Hoffman McCann P.C.
Latin America / Caribbean	
Artemio Bertholini <i>Brazil</i>	Partner, Directa Auditores, a member firm of PKF International Limited
Andrew F Brathwaite, CA <i>Barbados</i>	Principal, AFB Consulting, Chartered Accountants
Cdor. Hernán P Casinelli <i>Argentina</i>	General Coordinator of IFRS course and the Chartered Public Accounting Program, Universidad Argentina de la Empresa (UADE). Associate member, Gajst & Asociados
Haydeé de Chau <i>Panamá</i>	Partner, KPMG
Professor Jorge José Gil <i>Argentina</i>	Professor, University of Cuyo, Aconcagua University, General Director of AAASB (FACPCE)
Ricardo Rodil <i>Brazil</i>	Senior Partner, Baker Tilly Brasil
International	
Henri Fortin	World Bank

Observers:

European Commission

European Financial Reporting Advisory Group (EFRAG)

The SME Implementation Group is responsible for assisting the IASB on matters related to the implementation of the IFRS for SMEs. More information on the SMEIG can be accessed at <http://go.ifrs.org/IFRS+for+SMEs+SMEIG>.

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Translations of the IFRS for SMEs

Translations of the IFRS for SMEs approved by the IFRS Foundation are available in several languages and more are planned. Here is the overall status of translations to date:

Completed. Arabic, Armenian*, Chinese*, Czech*, French*, Hebrew, Italian*, Lithuanian, Portuguese*, Romanian*, Spanish*, Turkish*

In process. Japanese, Kazakh, Khmer, Macedonian, Mongolian, Polish, Russian, Serbian

Under discussion with the IFRS Foundation. Albanian, Bulgarian, Ukrainian

**Available for free download*

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Upcoming train the trainers workshops

The IFRS Foundation is conducting workshops to 'train the trainers' on the IFRS for SMEs. Most workshops are three days duration with eight contact hours per day. Upcoming workshops will be held in Banjul, Basseterre, Buenos Aires and Dubai. A few others are in the planning stage for 2011 (see <http://www.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm>):

West Africa

Date 9–11 May 2011

Location Banjul, the Republic of The Gambia

Instructors Michael Wells and Paul Pacter (IASB member and Chairman of the SME Implementation Group)

Language English

Sponsoring organisation The Association of Accountancy Bodies in West Africa (ABWA) with the support of a World Bank financed project for The Gambia Association of Accountants.

The Caribbean

Date 16–20 May 2011

Location Basseterre, The Federation of Saint Kitts and Nevis

Instructors Mary Barth (Academic Advisor to the IASB), Robert Garnett (Chairman, IFRS Interpretations Committee) and Michael Wells

Language English

Sponsoring organisation The Eastern Caribbean Central Bank (ECCB) with the support of a World Bank-financed project

Latin America

Date 4–6 July 2011

Location Buenos Aires, Argentina

Instructors Michael Wells and Jorge Gil (General Director, NSS Argentine–Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE) and Member of the SME Implementation Group)

Language English and Spanish

Sponsoring organisation FACPCE with the support of the World Bank Spanish Trust Fund for Latin America and the Caribbean

The Middle East

Date 27–29 September 2011

Location Dubai, UAE

Instructors Michael Wells and Paul Pacter

Language English spoken (workshop material in Arabic and English)

Sponsoring organisations Dubai SME and the Arab Society for Certified Accountants (ASCA)

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Where to obtain **IFRS for SMEs** materials

- [The standard online](#)
(Armenian, Chinese, Czech, English, French, Italian, Portuguese, Romanian, Spanish and Turkish)
- [The standard in hard copy](#)
- [Information about the SME Implementation Group](#)
- [Q & As](#)
- [Presentations at train the trainers Workshops](#)
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