A·I·A THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS

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Comments on SME Implementation Group Draft Question and Answers

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Company number 00264086. The AIA is a Recognised Qualiftying Body for company auditors in the UK.

Introduction

These comments are submitted by the Association of International Accountants and written by Stephen Chan, AIA technical adviser and Head of Technical & Training at BDO Hong Kong.

About AIA

The Association of International Accountants (AIA) was founded in the UK in 1928 as a professional accountancy body and from conception has promoted the concept of 'international accounting' to create a global network of accountants in over 85 countries worldwide.

AIA is recognised by the UK Government as a Recognised Qualifying Body for statutory auditors under the Companies Act 2006, across the European Union under the Mutual Recognition of Professional Qualifications directive and as a Prescribed Body under the Companies (Auditing and Accounting) Act 2003 in the Republic of Ireland. AIA also has supervisory status for its members in the UK under the Money Laundering Regulations 2007.

AIA promotes and supports the advancement of the accountancy profession both in the UK and internationally. The AIA exams are based on International Financial Reporting and International Auditing Standards and are complimented by a range of variant papers applicable to local tax and company law in key jurisdictions together with an optional paper in Islamic Accounting.

AIA members are fully professionally qualified to undertake accountancy employment in the public and private sectors.

Comments on SME Implementation Group Draft Question and Answers

AIA has reviewed the draft non-mandatory guidance in the form of Question and Answers (Q & As) (2011/02, 2011/03 and 2011/04) published by the SME Implementation Group (SMEIG), and has the following comments for your consideration.

Draft Q&A Issue 2 (2011/02) – Capital Insurance Subsidiaries

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 capital insurance subsidiary cause the group to be publicly accountable and hence not permitted to produce consolidated financial statements in accordance with 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?***

AIA's Comments

1. The AIA agreed with the Response and Basis for conclusions of the SMEIG.

2. The AIA would like the SMEIG to clarify a key principle concerning the preparation of group accounts under IFRS for SMEs.

   a) The Response in paragraph 3 is that the captive insurance entity itself is not publicly accountable, and it follows that the group will not be publicly accountable.

b) However, a follow-up question is "what happens if a group contains a publicly accountable subsidiary, and should the "publicly accountability" be applied at both individual company and group level. For example, would a group with a securities dealer/broker subsidiary result in the group becoming publicly accountable and therefore prohibited from preparing group accounts under IFRS for SMEs, even though it is clear that the securities dealer/broker subsidiary company is not allowed to prepare its accounts under IFRS for SMEs.

Draft Q&A Issue 3 (2011/03) – Interpretation of "traded in a public market"

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?

AIA's Comments

1. Paragraph 4 states "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." The AIA considers that **facility for trading** is not the only determining factor in this analysis, as Basis for conclusions 2 also states "Consistently, if an entity's debt or equity instruments are traded by a broad group of outsiders, the entity should also be considered publicly accountable." There may be cases where a large group of independent investors trade among themselves directly in the shares of a company, and the volume and frequency may be very high. Under the circumstances it would be difficult to argue that these shares are not being "publicly traded."

Draft Q&A Issue 4 (2011/04) – Investment funds with only a few participants

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)?

AIA's Comments

2. AIA agrees with the Response and Basis for conclusions of the SMEIG.

3. AIA suggests that the example in paragraph 3(c) "*a pooled investment fund with only two or three participants*" be changed to "*a pooled investment fund with only a few participants.*"