

15 June 2011

SME Implementation Group (SMEIG)
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Email: CommentLetters@ifrs.org

Dear Sir/Madam

**SAICA SUBMISSION ON DRAFT Q&A 2011/01 – IFRS FOR SMES SECTION 1
ISSUE 2 CAPTIVE INSURANCE SUBSIDIARIES
ISSUE 3 INTERPRETATION OF ‘TRADED IN A PUBLIC MARKET’
ISSUE 4 INVESTMENT FUNDS WITH ONLY A FEW PARTICIPANTS**

In response to your request for comments on the SMEIG’s Draft Q&A 2011/01 – *IFRS for SMEs* Section 1, Issue 2 *Captive insurance subsidiaries*, Issue 3 *Interpretation of ‘traded in a public market’*, Issue 4 *Investment funds with only a few participants*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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ISSUES

ISSUE 2 *Captive 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 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?*

Whilst we agree in principle that a captive insurance subsidiary should not be categorised as a publicly accountable entity and thus causing the group to be publicly accountable, it is unclear what accounting the captive insurers should be applying as IFRS for SMEs does not provide guidance for insurance accounting. It is our view that, if the proposed response as contained in the Draft Q&A is unchanged, this issue be clarified in the Basis for Conclusions in order to avoid any diversity in practice. We have also considered the fact that such captive insurance subsidiaries are regulated, but believe that regulation should not play a role in making this assessment.

ISSUE 3 *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? 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?

We agree with the proposed response. The definition of a public market states that a public market includes those debt or equity instruments that are traded ‘over-the-counter’ including local and regional markets. We note that in some instances trading ‘over-the-counter’ could be restricted to specific group of individuals. It is unclear whether this restriction would have an impact in determining whether a market is a public market or not. We believe that guidance on this issue would be useful.

The proposed response indicates that “*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*”. We note that in some instances the group of outsiders could be fairly limited or limited to a

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specific group of people, for example, in the case of farming, co-operative shares are only publicly available to farmers that become members of the co-operative. It is unclear whether in these cases the market should be considered as a public market.

A further issue that could be clarified is the availability of shares on the internet. If an entity makes a number of its shares available on an e-buy system, will this be regarded as a public market.

ISSUE 4 *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)?

We agree with the proposed response.

OTHER COMMENTS

It seems that a possible inconsistency exists between the response to issue 2 and issue 4. Under issue 2 point 4, the impression is created that associates and joint ventures form part of a broad group of outsiders. In contrast, under issue 4 point 3(b), a few associates and joint ventures are identified not to represent a broad group of outsiders.

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