



15 June 2011

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sirs

Response to Draft Q&As on IFRS for SMEs

The Singapore Accounting Standards Council appreciates the opportunity to comment on the following Draft Q&As on IFRS for SMEs issued by the SMEIG in April 2011:

- Draft Q&A 2011/02 – *Captive insurance subsidiaries*
- Draft Q&A 2011/03 – *Interpretation of “traded in a public market”*
- Draft Q&A 2011/04 – *Investment funds with only a few participants*

General

We appreciate the SMEIG’s efforts to provide non-mandatory and timely guidance on specific accounting questions that are being raised by users implementing the IFRS for SMEs.

However, we believe that the SMEIG should provide guidance in a more principle-based manner so that the guidance can address most, if not all situations, rather than only specifically to certain type of entity or circumstance such as captive insurance companies (which are covered by Draft Q&A 2011/02) or investment funds (which are covered by Draft Q&A 2011/04). Furthermore, we recommend that the SMEIG reassess if it is necessary to provide guidance on what constitutes “a broad group” as we are of the view that this involves the application of judgment (as acknowledged by the SMEIG in paragraph 4 of Draft Q&A 2011/02 and in the basis for conclusions for Draft Q&A 2011/04) which should not be dealt with in the Q&As.

In addition, we note that the term “traded in a public market” is widely used in the “full” IFRSs (e.g. in IAS 27 *Consolidated and Separate Financial Statements*, IAS 33 *Earnings per Share*, etc) and additional guidance on the interpretation of this term was not considered

necessary in relation to the full IFRSs. As such, we suggest that the SMEIG reconsider if it is essential to issue interpretation guidance on this term for the IFRS for SME.

Should the SMEIG decide to proceed to issue the Q&As, our comments on the specific draft Q&As are as follows:

Draft Q&A 2011/02 – Captive insurance subsidiaries

Paragraph 3 of the draft Q&A states that “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 (i.e. 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*”.

We believe that, in determining whether a captive insurance company holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, it is the activities of the company at the reporting date that should be considered, and not what it was set up for initially. As such, we recommend that paragraph 3 of the draft Q&A be amended as follows:

*“A captive insurance company is an insurance company that, **at the reporting date, engages in activities** ~~is set up~~ with the specific objective...”*

We also observe that whilst the draft Q&A specifies that when the captive insurance subsidiary itself is not publicly accountable, it follows that the group would not be publicly accountable, it did not provide any guidance on whether the group would be deemed as publicly accountable for the purpose of preparing consolidated financial statements if the captive insurance subsidiary itself is publicly accountable. In fact, we note that the IFRS for SMEs itself does not provide guidance on whether a group would be deemed to be publicly accountable (and hence prohibited from using the IFRS for SMEs to prepare its consolidated financial statements) if a subsidiary within the group is publicly accountable. We believe that the SMEIG should consider providing guidance on this.

Lastly, we would like to highlight that there is a drafting error in paragraph 2 of the draft Q&A. The reference to the IFRS for SMEs should read paragraph 1.3(b) instead of paragraph 1.4.

Draft Q&A 2011/03 – Interpretation of “traded in a public market”

The last two sentences in paragraph 4 of the draft Q&A state: “*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*”.

We are of the view that these sentences contradict each other in that the first sentence makes reference to the frequency of trading whilst the second sentence concludes that the frequency of trading is irrelevant and suggest that the SMEIG clarify this inconsistency.

Draft Q&A 2011/04 – Investment funds with only a few participants

We note that one of the examples provided in the draft Q&A of entities that do not hold assets in a fiduciary capacity for a broad group of outsiders suggests that 2-3 participants would not be considered “a broad group of outsiders”. We would like to clarify if it is the intention of the SMEIG to use numbers to explain the term “broad group of outsiders”. Our concern with the use of numbers is that it could result in “bright line” tests which is not principle-based and begs the question on what number represents “broad” (e.g. would 4 participants constitute “a broad group of outsiders” in the aforementioned example?). As such, we urge the SMEIG to consider carefully the use of specific numbers in the Q&A to explain the application of the IFRS for SMEs.

In addition, the last sentence in paragraph 2 of the draft Q&A states: “*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*”. The inclusion of the words “on its own” appears to suggest that there are other factors to consider in determining what constitutes “a broad group”. We recommend that the SMEIG clarify what these factors are as they do not appear to be specified in the draft Q&A or the IFRS for SMEs.

We hope that our comments will contribute to the SMEIG’s deliberation on the draft Q&As. Should you require any further clarification, do contact the project manager at kate_ho@acra.gov.sg.

Yours faithfully

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Secretary
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