December 2011

Q&A 2011/03

IFRS for SMEs Section 1

Interpretation of 'traded in a public market' in applying the *IFRS for SMEs*

Q&As are published by the SME Implementation Group (SMEIG), which assists the IASB[1] in supporting the implementation of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The Q&As are intended to provide non-mandatory and timely guidance on specific accounting questions that are being raised with the SME Implementation Group by users implementing the *IFRS for SMEs*.

A draft of this Q&A was issued for public comment on 14 April 2011. The comment deadline was 15 June 2011.

Draft and Final Q&As, and comments on draft Q&As, may be downloaded without charge from the IASB's website at http://go.ifrs.org/IFRS+for+SMEs+QandA.

Issue

1 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 that are 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? In addition, would a listing of convenience, ie a market in which a 'net asset value' price is published but no trading occurs in that market, make an entity publicly accountable?

Response

2 '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 involved in the management of the entity, such as key management personnel or shareholders, the instruments are not traded in a public market.

3. 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. Because 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*.

1 International Accounting Standards Board (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation

4. 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 in a public market, even only a few times a year, this would constitute trading.

5. The assessment of whether an entity's debt or equity instruments are traded in a public market, or are in the process of being issued for trading in a public market, should be an ongoing one.

Basis for Conclusions

BC1 An entity that does not have public accountability is eligible to use the *IFRS for SMEs* (paragraph 1.2(a)). The *IFRS for SMEs* provides (paragraph 1.3) two criteria for determining whether an entity has public accountability. The first one is if an entity's 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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets). Paragraph 1.3(a)[2] in the *IFRS for SMEs* refers to 'a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets' as a definition of a public market. The definition does not contain any indication that it is restricted to recognised and/or regulated stock exchanges.

BC2 There is no definition of 'public' in the *IFRS for SMEs*. However, the term 'public' is usually considered to mean affecting a population or a community as a whole. For a market to be considered public, it should be open to a broad group of outsiders, even if the actual trading is done only infrequently or only by a small group of market participants. If an entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, it is considered to have public accountability (this is the second criterion in paragraph 1.3). To be consistent, if an entity's debt or equity instruments are available to be traded by a broad group of outsiders, the entity should also be considered publicly accountable.

BC3 In deciding to issue this Q&A, the SMEIG recognised that the term 'traded in a public market' is used also in full IFRSs. Several commentators on the draft Q&A suggested that the issue should be referred to the IFRS Interpretations Committee. The SMEIG noted, however, that the issue has arisen only as a result of initial application of the *IFRS for SMEs*, and that there is therefore a need for timely guidance. In many countries around the world, the *IFRS for SMEs* is being required or made available for use for the first time in 2011 and 2012. The SMEIG concluded that guidance on 'traded in a public market' is needed to ensure that entities that are not eligible to use the *IFRS for SMEs* do not begin to use it. This Q&A is not intended to modify in any way the application of full IFRSs.

2 reference was updated on 8 March 2012

IFRS Foundation Publications Department
30 Cannon Street | London EC4M 6XH | United Kingdom | Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 7249 | Email: publications@ifrs.org | Web: www.ifrs.org