IFRS Accounting

Staff paper

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IASB® meeting

Date	**June 2023**
Project	**Second Comprehensive Review of the *IFRS for SMEs®* Accounting Standard**
Topic	**Definition of public accountability**
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Purpose of this paper

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to:

   (a) consider feedback on the proposed clarification to the definition of public accountability in paragraphs 1.3 and 1.3A of the 2022 Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft); and

   (b) decide whether the definition of public accountability in the *IFRS for SMEs* Accounting Standard needs clarification.

2. The description of public accountability in the draft Standard *Subsidiaries without Public Accountability: Disclosures* is the definition and supporting guidance from paragraphs 1.3 and 1.4 of the *IFRS for SMEs* Accounting Standard. Consequently, any decisions made to clarify the definition of public accountability and supporting guidance would also need to be reflected in the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*.

Staff recommendations

3. The staff recommend the IASB should:

   (a) confirm the proposed amendment to paragraph 1.3(b) of the Standard to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that *often* meet the second criterion of public accountability.

   (b) make the same amendment to the description of public accountability in the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*.

   (c) relocate the guidance in paragraph 1.3A of the Exposure Draft from the body of the Standard to both the Basis for Conclusions on the Standard and the *IFRS for SMEs* educational modules (in Module 1 *Small and Medium-sized Entities*) and:

      (i) state explicitly that this guidance provides further direction on the application of paragraph 1.3; and

      (ii) add 'and' to clarify that an entity with public accountability would likely have the characteristics in both paragraphs 1.3A(a) and (b).[1]

   (d) further clarify in the Preface to the *IFRS for SMEs* Accounting Standard the role of the local legislative and regulatory authorities in individual jurisdictions in applying the definition of public accountability.

   (e) consider other suggestions for guidance when updating the *IFRS for SMEs* educational modules.

[1] At its June 2022 meeting, the IASB tentatively decided to make Module 1 *Small and Medium-sized Entities* separately available on the IFRS Foundation's website as educational material to support the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*, when the forthcoming Standard is finalised. See June 2022 IASB *Update*.

Structure of this paper

4. This paper is structured as follows:

   (a) Background (paragraphs 5–14);

   (b) Feedback on Question 1 of the Exposure Draft (paragraphs 15–25);

   (c) Staff analysis (paragraphs 26–46);

   (d) Staff recommendation and question for the IASB (paragraph 47);

   (e) Appendix A: Timeline of feedback on the definition of public accountability; and

   (f) Appendix B: Extracts from the Basis for Conclusions on the Exposure Draft.

Background[2]

Definition of public accountability

5. The *IFRS for SMEs* Accounting Standard is intended for use by entities without public accountability.[3]

6. Paragraph 1.3 of the *IFRS for SMEs* Accounting Standard states that an entity has public accountability if:

   (a) 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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

   (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies,

[2] Agenda Paper 30A for the May 2022 IASB meeting provides background about the IASB's considerations when developing the definition of public accountability before issuance of the *IFRS for SMEs* Accounting Standard in 2009 and during the first comprehensive review, and also when considering what guidance to include in Module 1 *Small and Medium-sized Entities* of the *IFRS for SMEs* educational material.

[3] See paragraph 1.1 of the Exposure Draft.

securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

7. Paragraph 1.4 of the *IFRS for SMEs* Accounting Standard clarifies that some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

8. Module 1 *Small and Medium-sized Entities*, the educational material on Section 1 *Small and Medium-sized Entities* of the *IFRS for SMEs* Accounting Standard, contains supporting guidance on the definition of public accountability, including guidance on 'traded in a public market' and examples to illustrate application of 'broad group of outsiders' and 'primary business'.[4] This guidance responded to requests for clarification when the *IFRS for SMEs* Accounting Standard was first issued and during the first comprehensive review.[5]

Proposed clarifications to the definition of public accountability

9. The 2020 Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* did not ask a question on the scope of the *IFRS for SMEs* Accounting Standard. This is because the IASB decided that in view of the feedback from both the first comprehensive review and from outreach for the first stage of the second comprehensive review, it was unlikely that responses to the 2020 Request for Information would lead the IASB to change its previous conclusions.

[4] The IFRS Foundation has developed stand-alone educational modules, one for each section of the 2015 version of the *IFRS for SMEs* Accounting Standard, which it makes available on its website.

[5] It includes guidance issued by the SME Implementation Group in 2011 in the form of Q&As on the definition of public accountability (further explained in paragraphs 13-14 of Agenda Paper 30A for the May 2022 IASB meeting).

10. Only a small number of respondents to the 2020 Request for Information commented on the scope of the Standard, and they did not comment specifically on application of the definition of public accountability.

11. Nevertheless, some respondents to the 2021 Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (see paragraph 2), expressed some concerns about applying the definition of public accountability. These concerns were raised mainly in relation to insurance companies. A few respondents were of the view that premiums collected by an insurance company in exchange for a contractual promise to indemnify the customer for a possible future event belong to the insurance company and are not held and managed in a fiduciary capacity by the insurance company. Some respondents asked for guidance on the term 'fiduciary capacity'.

12. In response to these concerns and to help jurisdictions better understand the basis for the definition of 'public accountability' and apply that definition consistently, in the 2022 Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* the IASB proposed:

    (a) to amend paragraph 1.3(b) of the *IFRS for SMEs* Accounting Standard to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b).

    (b) to add a new paragraph 1.3A that clarifies that an entity with the following characteristics would usually have public accountability:

        (i) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.

        (ii) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

13. During its deliberations on clarifying the definition of public accountability, the IASB also tentatively decided:

    (a) not to include the guidance on public accountability in Module 1 *Small and Medium-sized Entities* within the *IFRS for SMEs* Accounting Standard (or within the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures* when it is finalised); but

    (b) to make Module 1 separately available on the IFRS Foundation's website as educational material to support the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*, when that Standard is finalised.

14. Appendix A provides a timeline to illustrate when feedback was requested on the projects noted above. Paragraphs BC11–BC19 of the Basis for Conclusions on the 2022 Exposure Draft provide further background on the considerations of the IASB when developing the proposals to clarify the definition of public accountability in paragraphs 1.3 and 1.3A (see Appendix B).

Feedback on Question 1 of the Exposure Draft

Question 1—Definition of public accountability	
The IASB expects that the proposed amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.	
1(i)	Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out.
1(ii)	Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

Overall feedback on Question 1

15. Out of the 70 comment letters received, most respondents responded to Question 1. However, some of these respondents did not respond directly to Question 1(i).

16. Feedback on Question 1 was mixed. Approximately half of those responding agreed that the proposed amendments would add clarity without changing the intended scope of the Standard. However, many (large minority) respondents disagreed or, whilst not responding directly on Question 1(i), expressed concern that the proposed amendments to paragraphs 1.3 and 1.3A are subjective and could lead to different interpretations of the definition of public accountability, and hence the intended scope of the Standard.

17. Feedback on Question 1 is set out as follows:

    (a) proposed amendments to paragraph 1.3 (paragraphs 18–19);

    (b) proposed new paragraph 1.3A (paragraphs 20–21)

    (c) other comments on the definition and supporting guidance on public accountability, that is comments on requirements in the Standard that were not proposed for change (paragraphs 22–25).

Proposed amendments to paragraph 1.3

18. Most respondents that commented on paragraph 1.3 agreed with amending paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that *often* meet the second criterion of public accountability. However, a few respondents suggested the IASB further clarifies that the list of entities in paragraph 1.3(b) is not an exhaustive list.

19. Some respondents asked the IASB to clarify whether and/or when specific entities have public accountability because they do not think this is clear from the proposed amendments. Requests included the following entities:

(a) entities who hold funds in trust for their clients, such as attorneys and estate agents;

(b) security brokers or dealers, for example those that only provide investment advice and/or transactional services to their clients;

(c) retirement benefits plans (it was noted the *IFRS for SMEs* Accounting Standard does not have equivalent requirements to IAS 26 *Accounting and Reporting by Retirement benefit plans*);

(d) insurance underwriters: asset/fund managers; securitisation vehicles; and cooperatives and credit unions.

Proposed new paragraph 1.3A

20. Many respondents (a small majority) that commented on paragraph 1.3A agreed with the proposal to clarify the definition of public accountability in paragraph 1.3A. Nevertheless, some of these respondents suggested the following clarifications should be made:

(a) add 'and' or 'or' to clarify whether both conditions in paragraphs 1.3A(a) and (b) must be met;

(b) clarify the linkage between paragraphs 1.3 and 1.3A, for example clarify that paragraph 1.3A provides further guidance on paragraph 1.3 (as explained in paragraph BC17 of the Basis for Conclusions on the Exposure Draft) and is not an additional set of criteria for meeting the definition of public accountability;

(c) clarify that local legislative and regulatory authorities in a jurisdiction can provide further filters and make their own decisions as to the specific applicability of the Standard within their jurisdiction; and

(d) add further clarification and examples to explain what is meant by 'high degree of outside interest', 'substantial claim' and 'broad group of users' to reduce implementation difficulties.

21. Many respondents (a large minority) that commented on paragraph 1.3A disagreed with the proposal to clarify the definition of public accountability. Some of these respondents suggested that the proposals should be clarified or removed completely, whereas others suggested paragraph 1.3A should be retained only in the Basis for Conclusions on the Standard or in educational material. These respondents had the following concerns:

(a) instead of providing clarification, paragraph 1.3A appears to introduce additional criteria which entities must consider in applying the definition of public accountability, which appears to widen the definition.

(b) the definition of public accountability used in the *IFRS for SMEs* Accounting Standard is well understood and the proposed amendments would add unnecessary complexity. Adding guidance which requires significant judgment will not support consistent application.

(c) the proposal introduces terms such as 'high degree of outside interest in the entity', 'substantial claim' and 'broad group of users' that are vague, subjective and could be interpreted broadly. Some respondents provided examples of where paragraph 1.3A might capture other entities in the definition of public accountability:

(i) government entities, for example a school that prepares financial statements and there is a high degree of outside interest from parents that pay fees;

(ii) an entity engaged in litigation that could result in a material loss, which might be meet the threshold of a substantial claim against the entity;

(iii) an entity with multiple lenders or other creditors, or multiple unrelated owners, or many employees might constitute a high degree of outside interest and a broad group of users;

(iv) a high degree of outside interest in an entity because of its reputation or actions; and

(v) a high degree of outside interest in an entity at a point in time, not just over a particular time period.

(d) the definition of public accountability is also used in certain jurisdictions that have not adopted the *IFRS for SMEs* Accounting Standard (e.g. Canada) to identify entities entitled to apply a local GAAP instead of IFRS Accounting Standards. In these jurisdictions, a consistent understanding of the term has been reached and is working well in practice.

Other comments on the definition and supporting guidance on public accountability

22. Some respondents said that the IASB should instead clarify the intended meaning of the phrase ‘holding assets in a fiduciary capacity’. They noted that such clarification would help to ensure the definition is applied consistently, whereas the proposed new paragraph 1.3A would not because it uses subjective terminology (see paragraph 21(c)). It was noted that the legal meaning of 'fiduciary capacity' in some jurisdictions may be narrower than what was envisaged by the IASB.

23. A few respondents asked the IASB to provide guidance on other terms in paragraph 1.3, including ‘a broad group of outsiders’ and ‘trading in a public market’, which have given rise to application issues in determining whether certain entities meet the definition of public accountability.

24. A few respondents suggested that the IASB consider how the definition is applied in practice to identify common challenges and whether jurisdictions have deemed certain entities to have public accountability, and use this feedback to provide guidance on the definition of public accountability.

25. A few respondents also suggested the IASB consider the interaction between the definition of public accountability and the definition of public interest entities.

Staff analysis

26. Most respondents that commented on Question 1 agreed with amending paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that *often* meet the second criterion of public accountability. Consequently, the staff recommend the IASB retains the proposed amendments to paragraph 1.3(b).

27. Nevertheless, the staff have identified the following main concerns about the proposed new paragraph 1.3A and have considered these below:

    (a) paragraph 1.3A appears to introduce additional criteria, which would widen the definition of public accountability (see paragraphs 30–32);

    (b) paragraph 1.3A introduces subjective terms such as 'high degree of outside interest in the entity', 'substantial claim' and 'broad group of users' that could be interpreted broadly (see paragraphs 33–35); and

    (c) it would be better for the IASB to clarify the definition of fiduciary capacity (see paragraphs 36–41).

28. Respondents also asked for additional guidance in other areas, including whether and/or when specific entities have public accountability and to clarify other terms in paragraph 1.3 of the *IFRS for SMEs* Accounting Standard, including 'a broad group of outsiders' and 'trading in a public market' (see paragraphs 42–46).

29. A few respondents said that the IASB should consider the interaction between the definition of public accountability and the definition of public interest entities, a term used in some jurisdictions to prescribe the financial reporting framework. A similar concern was raised on the 2021 Exposure Draft *Subsidiaries without Public Accountability: Disclosures*. The staff think that this is a jurisdictional issue that should be considered by legislative and regulatory authorities, and standard-setters, in the jurisdiction.

Appears to introduce additional criteria

30. Some respondents said, instead of providing clarification, paragraph 1.3A appears to introduce additional criteria that entities must consider in applying the definition of public accountability.

31. Paragraphs BC17–BC18 of the Basis for Conclusions on the Exposure Draft explain that the IASB proposed adding paragraph 1.3A to clarify why the entities in paragraph 1.3(b) would often be considered to have public accountability. Paragraph 1.3A is intended to help jurisdictions better understand the basis for the definition of 'public accountability' and apply that definition consistently. The IASB also explained that these amendments are expected to add clarity without changing the intended scope of the Standard. Furthermore, paragraph 1.3A uses non-prescriptive wording, namely 'An entity with the following characteristics *would usually* have public accountability….'.

Staff view

32. The staff think that paragraphs BC17–BC18 of the Basis for Conclusions are clear that the IASB did not intend paragraph 1.3A to introduce additional criteria. Considering the suggestions received, the staff have identified the following ways to clarify that paragraph 1.3A does not introduce additional criteria nor widen the definition of public accountability:

    (a) clarify the linkage between paragraph 1.3 and 1.3A, for example by stating explicitly that paragraph 1.3A provides further guidance to aid application of the definition of public accountability in paragraph 1.3 (paragraph 1.3A was proposed to assist application of paragraph 1.3(b), however the staff think it also covers entities in paragraph 1.3(a)); and

    (b) add 'and' to clarify that an entity with public accountability would usually have the characteristics in both paragraphs 1.3A(a) and (b).

Subjective terminology

33. Some respondents did not support the proposed amendments because they introduce subjective terms such as ‘high degree of outside interest’, ‘substantial claim’ and ‘broad group of users’ that could be interpreted broadly. Some of the respondents that supported the proposed amendments also asked for guidance on these terms.

Staff view

34. The staff acknowledge that the terms are judgemental, but note that they are intended to help entities apply paragraph 1.3. Furthermore, the staff do not think the IASB would be able to clarify these terms in the Standard as to do so would necessitate creating bright lines or thresholds. If the IASB decides to provide further guidance, the staff think the best way to do so would be through the use of examples in educational material.

35. The main reason for proposing paragraph 1.3A was to help entities and jurisdictions better understand the basis for the definition of ‘public accountability’ following questions about the meaning of fiduciary capacity, particularly whether all insurance companies hold assets in a fiduciary capacity and thereby meet this definition. However, based on the feedback, paragraph 1.3A seems to have raised more questions rather than provide clarification. Consequently, the staff recommend relocating the guidance in paragraph 1.3A to educational material, where it would still be available to those respondents that find it helpful. The staff have a further suggestion on how to address requests for a definition of, or guidance on, the term fiduciary capacity below.

Definition of or guidance on fiduciary capacity[6]

36. Some respondents said that the IASB should clarify its intended meaning of the phrase ‘holding assets in a fiduciary capacity’. It was noted that the legal meaning of

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[6] Paragraph 33-34 of this paper incorporates discussion in paragraphs BC182–BC183 of the Basis for Conclusions on the 2015 *IFRS for SMEs* Accounting Standard and Agenda Paper 15A *Feedback from comment letters on the October 2013 ED* of the May 2014 IASB meeting.

'fiduciary capacity' in some jurisdictions may be narrower than what was envisaged by the IASB. These respondents did not provide suggestions for how the IASB could clarify fiduciary capacity, except one respondent who noted it might be helpful to use language which refers to a broad group of outsiders placing trust and confidence in an entity to manage their resources, provide them with an income after retirement or provide protection in the event of an unexpected event.

37. During the first comprehensive review of the *IFRS for SMEs* Accounting Standard, the IASB included a question in the 2013 Exposure Draft *Proposed amendments to the IFRS for SMEs* asking respondents if they are aware of circumstances where the term 'fiduciary capacity' has created uncertainty or diversity in practice and whether the term needs to be clarified or replaced. Most respondents who commented on this question in the 2013 Exposure Draft said that there was no need to clarify or replace the term fiduciary capacity. No respondent provided examples of where the term had resulted in diversity in practice. However, a few respondents said that the term had created uncertainty on the implementation of the *IFRS for SMEs* Accounting Standard in their jurisdiction.

38. The IASB considered this feedback and observed that it would be difficult to provide a definition of the term fiduciary capacity and/or provide guidance that would be applicable in all jurisdictions applying the *IFRS for SMEs* Accounting Standard because of the different legal requirements and types of entities in different jurisdictions. Furthermore, the IASB noted that the local legislative and regulatory authorities, and standard-setters, in jurisdictions may be best placed to identify the kinds of entities in their jurisdiction that hold assets in a fiduciary capacity for a broad group of outsiders as a primary business. Consequently, the IASB decided not to provide a definition of or guidance on applying the term fiduciary capacity during the first comprehensive review of the *IFRS for SMEs* Accounting Standard.

39. Nevertheless, some respondents to both the 2021 Exposure Draft *Subsidiaries without Public Accountability: Disclosures* and the 2022 Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* have said it is important for the IASB to provide

guidance on the meaning of fiduciary capacity or clarify whether and/or when specific entities hold assets in a fiduciary capacity.

Staff view

40. The staff continue to think that it would be difficult for the IASB to provide guidance on the term ‘fiduciary capacity’ because of the different legal requirements and types of entities in different jurisdictions.

41. Some respondents suggested that the IASB should clarify that the local legislative and regulatory authorities in a jurisdiction can provide further filters and make their own decisions as to the specific applicability of the Standard within their jurisdiction. Considering these comments and in the light of the ongoing requests for guidance on application of ‘fiduciary capacity’, the staff suggest the IASB could more clearly state the role of the local legislative and regulatory authorities in the Preface to the *IFRS for SMEs* Accounting Standard. This may give the jurisdictions more confidence to apply judgement in ensuring consistent application of the scope criteria in their jurisdiction. Therefore, the staff suggest building on the IASB’s reasoning in paragraph BC183 of the Basis for Conclusions on the Standard and moving this guidance into the Preface of the Standard to give it prominence, alongside P13 of the Preface in the 2022 Exposure Draft. For example, the following paragraph might be added to the Preface:

> Local legislative and regulatory authorities and standard-setters may be best placed to resolve legal or regulatory issues in their jurisdiction. Given the different legal and regulatory requirements and types of entities in different jurisdictions, those authorities and standard-setters may be best placed to identify the kinds of entities in their jurisdiction that hold assets in a fiduciary capacity for a broad group of outsiders as a primary business. By this, the IASB means the local legislative and regulatory authorities and standard-setters may be best placed to ensure that the intended scope of the *IFRS for SMEs* Accounting Standard is applied consistently in their jurisdiction and that entities outside the

intended scope do not apply and state compliance with the Standard. Furthermore, those local legislative and regulatory authorities and standard-setters might decide to require some entities inside the intended scope of the *IFRS for SMEs* Accounting Standard to nevertheless apply full IFRS Accounting Standards, for example by prescribing quantified size criteria.

Other requests for guidance

42. Respondents had the following additional requests for guidance:

    (a) provide guidance on other terms in paragraph 1.3, including 'a broad group of outsiders' and 'trading in a public market';

    (b) clarify whether and/or when specific entities have public accountability (see list in paragraph 19); and

    (c) clarify that the list of entities in paragraph 1.3(b) is not an exhaustive list.

43. A few respondents suggested the IASB consider how the definition is applied in practice to identify common challenges, and uses this feedback to provide guidance on the definition of public accountability.

Staff view

44. The entities listed in paragraph 1.3(b) are clearly identified as examples of entities that often meet the second criterion of the definition of public accountability. The staff does not think there is a need to clarify the list is not exhaustive.

45. The staff observe that guidance on 'a broad group of outsiders', 'trading in a public market' and/or when specific entities have public accountability is already provided in Module 1 of our *IFRS for SMEs* educational modules in response to similar feedback raised by respondents on past consultation documents. Therefore, the staff recommend we consider whether the suggestions identify other examples or clarifications we need to address when we update these modules, for example assessing whether further

examples should be developed for the specific entities listed in paragraph 19 of this paper. In June 2022, the IASB tentatively decided to make Module 1 separately available on the IFRS Foundation's website as educational material to support the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*, when that Standard is finalised. Therefore, any guidance would be available both to entities applying the *IFRS for SMEs* Accounting Standard and the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*.

46. When updating the educational modules, we could also seek advice from the SMEIG on how the definition is applied in practice to identify any other common challenges. The staff plan to bring a paper to a future IASB meeting on our strategy for updating the educational modules for SMEs.

Staff recommendation and question for the IASB

47. The staff recommend the IASB should:

(a) confirm the proposed amendment to paragraph 1.3(b) of the Standard to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that *often* meet the second criterion of public accountability.

(b) make the same amendment to the description of public accountability in the forthcoming Standard *Subsidiaries without Public Accountability: Disclosures*.

(c) relocate the guidance in paragraph 1.3A of the Exposure Draft from the body of the Standard to both the Basis for Conclusions on the Standard and the *IFRS for SMEs* educational modules (in Module 1 *Small and Medium-sized Entities*) and:

(i) state explicitly that this guidance provides further direction on the application of paragraph 1.3; and

(ii) add 'and' to clarify that an entity with public accountability would likely have the characteristics in both paragraphs 1.3A(a) and (b).

(d) further clarify in the Preface to the *IFRS for SMEs* Accounting Standard the role of the local legislative and regulatory authorities in individual jurisdictions in applying the definition of public accountability (for example as suggested in paragraph 41).

(e) consider other suggestions for guidance when updating the *IFRS for SMEs* educational modules.

Question for the IASB
Does the IASB agree with the staff recommendation in paragraph 47?

Appendix A: Timeline of feedback

A1. The following timeline shows when feedback was received on the definition of public accountability.

Appendix B: Extracts from the Basis for Conclusions on the Exposure Draft

B1. The following extract summarises the considerations of the IASB when developing the proposals to clarify the definition of public accountability.

Definition of public accountability

BC11 At the start of this second comprehensive review, the IASB engaged with its consultative groups and national standard-setters on whether to permit exceptions to the definition of public accountability to allow some publicly accountable entities to apply the Standard. Stakeholders agreed with the IASB's view that changes to the scope of the Standard might require other changes that would increase the complexity of the Standard. Furthermore, stakeholders raised concerns about the difficulty of clearly defining the group of entities with public accountability that should be permitted to apply the Standard.

BC12 Because of the feedback from both the first comprehensive review (see paragraphs BC178–BC181 of the Basis for Conclusions on the Standard[7]) and from stakeholder engagement during this second comprehensive review, the IASB decided it was unlikely that responses to the Request for Information would lead the IASB to change its previous conclusions. Therefore, the IASB decided not to ask a question in the Request for Information on amending the scope of the Standard to permit exceptions to the definition of public accountability. Nevertheless, a few respondents to the Request for Information suggested that the scope of the Standard be widened by relaxing or removing the second criterion for public accountability in paragraph 1.3(b) of the Standard. These respondents said that the Standard would improve the financial reporting of credit unions and smaller financial institutions, especially in developing countries.

BC13 The IASB observed that it had considered this perspective during the first comprehensive review and these respondents provided no new information. The IASB also noted the concerns raised by consultative groups and national standard-setters about increasing the complexity of the Standard and defining a wider scope of entities that could apply the

[7] References to 'the Basis for Conclusions on the Standard' within this document are references to the Basis for Conclusions on the 2015 version of the Standard.

Standard (see paragraph BC11). If the scope were widened to include a sub-group of financial institutions, the IASB considered this might lead to pressure to include additional requirements from the newer IFRS Accounting Standards being considered during this review. For example, incorporating additional requirements from IFRS 9 *Financial Instruments* and IFRS 13 *Fair Value Measurement* to cater for more complex financial instruments, and incorporating risk disclosures from IFRS 7 *Financial Instruments: Disclosures*. Such additional requirements may include hedge accounting requirements and disclosures, and requirements to use the general model in IFRS 9 to calculate expected credit losses and disclose credit risk management practices. Therefore, the IASB decided not to propose widening the scope of the Standard to include some publicly accountable entities.

BC14 Nevertheless, feedback on the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, issued in July 2021, indicated some concerns about applying the definition of public accountability.[8] In particular, some respondents to ED/2021/7 disagreed with the statement in paragraph 1.3(b) of the Standard that 'most' banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks hold assets in a fiduciary capacity for a broad group of outsiders as a primary business, and hence have public accountability. These concerns were raised mainly in relation to insurance companies. A few respondents were of the view that premiums collected by an insurance company in exchange for a contractual promise to indemnify the customer for a possible future event belong to the insurance company and are not held and managed in a fiduciary capacity by the insurance company. Some respondents asked for guidance on the term 'fiduciary capacity'.

BC15 The IASB observed that there is a high degree of public interest in the financial reports of all non-captive insurance companies (insurance companies that insure the risks of parties outside their group of entities) because:

[8] In July 2021, the IASB issued Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, which sets out the IASB's proposal for a new IFRS Accounting Standard that would permit a subsidiary that does not have public accountability to apply reduced disclosure requirements when applying full IFRS Accounting Standards. The description of 'public accountability' in ED/2021/7 is based on the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs* Accounting Standard.

(a) the policyholders risk financial loss if an insured event occurs and the insurance company cannot pay the claim.

(b) the policyholders are outsiders who cannot demand information for themselves. That is why insurance companies are regulated—like banks, mutual funds, securities brokers and dealers, and other financial institutions.

BC16 The IASB also noted that the Standard includes no specific requirements for insurance contracts or complex financial instruments and, therefore, may not be suitable for more complex financial institutions. Nevertheless, the IASB agreed with respondents that specifying how often the entities in paragraph 1.3(b) of the Standard hold assets in a fiduciary capacity is unhelpful within the definition of public accountability and it would be better to clarify why those entities often have public accountability. Consequently, the IASB is proposing to amend paragraph 1.3(b) to instead list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion. Nevertheless, the IASB noted that this amendment is not intended to be a relaxation of the criterion in paragraph 1.3(b).

BC17 Furthermore, to help jurisdictions better understand the basis for the definition of 'public accountability' and apply that definition consistently, the IASB is proposing to clarify why the entities in paragraph 1.3(b) would often be considered to have public accountability. In particular, the IASB is proposing to clarify that an entity with these characteristics would usually have public accountability:

(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in, or substantial claim against, the entity.

(b) these users depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

The IASB's view is that full IFRS Accounting Standards are intended to meet the needs of these users.

BC18 The IASB expects that the proposed amendments explained in paragraphs BC16–BC17 will add clarity, without changing the intended scope of the Standard. However, in the Invitation to Comment on the Exposure Draft, the IASB is asking whether respondents agree with this expectation and with the proposed clarification.

BC19 The IASB observed that it discussed providing guidance on, or defining, the term fiduciary capacity during the first comprehensive review (see paragraph BC183 of the Basis for Conclusions on the Standard) and concluded that it would be difficult to develop guidance that would be applicable, translatable and capable of being consistently applied across all jurisdictions applying the Standard. The IASB also noted that the Standard is established in many jurisdictions, using the definition of public accountability. Consequently, including a definition of 'fiduciary capacity' in the Standard now could create problems in jurisdictions that have already determined which types of entities in that jurisdiction have public accountability, if such determinations are inconsistent with any new definition.