

IFRS for SMEs Section 1, Issue 2

Captive insurance subsidiaries

Question & Answers (Q&As) are published by the SME Implementation Group (SMEIG), which assists the IASB¹ 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 Implementation Group by users implementing the IFRS for SMEs.

The SMEIG invites comments on whether the proposed Q&A provides useful and sufficient guidance on the matter.

Comment deadline: 15 June 2011

Comments must be submitted electronically via the IASB's website: <http://go.ifrs.org/IFRS+for+SMEs+QandA>

Comment documents should state the name and address of the organisation or individual submitting the comment (and, if an organisation, the name of a contact person), and a contact email address.

All comments will be posted on the IASB's website.

Issue

1. 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*?

Response

2. Paragraph 1.4 lists insurance companies as an example of entities that typically hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses. This does not mean that all insurance companies are publicly accountable.
3. 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 (ie 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. Therefore the captive insurance entity itself is not publicly accountable, and it follows that the group will not be publicly accountable.

¹ International Accounting Standards Board (IASB)
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4. Occasionally a captive insurance company insures risks of entities in its own group and also sells insurance directly to other parties such as associates, joint ventures and unrelated third parties. In this case, if the other parties constitute a broad group of outsiders the captive insurance entity will be publicly accountable. Judgement must be applied in applying the concept 'broad group of outsiders'.

Basis for conclusions

BC1 The *IFRS for SMEs* sets out a principle for identifying which entities are eligible to use the *IFRS for SMEs*. An entity that does not have public accountability is eligible (paragraph 1.2(a)). The *IFRS for SMEs* provides (paragraph 1.3) two criteria for determining whether an entity has public accountability. The second one is if an entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Paragraph 1.3(b) cites insurance companies as an example of entities that 'typically' hold assets for a broad group of outsiders. However, a captive insurance company typically holds assets only for its investor, not for a broad group of outsiders.

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