

IFRS for SMEs Section 1, Issue 3

Interpretation of 'traded in a public market'

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. 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?

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 related to the entity, such as owner-managers, 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. Since 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)
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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 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.

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 BC57 in the *IFRS for SMEs* refers to the text set out in brackets in the preceding sentence as a definition of public market. The definition indicates no restriction 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. 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). Consistently, if an entity's debt or equity instruments are traded by a broad group of outsiders, the entity should also be considered publicly accountable.

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