

## IFRS for SMEs Section 1, Issue 4

### Investment funds with only a few participants

Question & Answers (Q&As) are published by the SME Implementation Group (SMEIG), which assists the IASB<sup>1</sup> 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 is publicly accountable if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks (paragraph 1.3(b)). Does the criterion 'broad group of outsiders' mean that investment funds or similar entities that restrict their ownership to only a few participants are not publicly accountable under paragraph 1.3(b)?

### Response

2. The intention under paragraph 1.3 is to capture those entities that hold and manage financial resources entrusted to them by a broad group of outsiders, ie a broad group of investors or other resource providers who are not involved in the management of the entities. Such entities include, for example, mutual funds, unit trusts, undertakings for collective investments in transferable securities (UCITS), and other professionally managed collective investment programmes. Taking investment funds from the general public makes those entities publicly accountable. 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.
3. Examples of entities that do not hold assets in a fiduciary capacity for a broad group of outsiders include:
  - (a) a venture capital fund with a few investors all or most of whom are directly involved in the fund's investment and management decisions;
  - (b) a pooled investment fund whose participants are limited to a parent, its subsidiaries and a few associates/joint venture; and
  - (c) a pooled investment fund with only two or three participants

<sup>1</sup> International Accounting Standards Board (IASB)  
The IASB is the independent standard-setting body of the IFRS Foundation

4. In contrast, an investment fund that has a large number of outside investors who are not directly involved in the fund's investment and management decisions is likely to be publicly accountable even if those outside investors own a relatively small proportion of the fund's shares (or units). What is important is whether there is a broad group of outsiders contained within the total participants in the fund.
5. If a participant can demand reports tailored to meet its own information needs, this is evidence that the participant is not an outsider. On the other hand, if an investor can obtain only financial reports prescribed by law or regulation, this is evidence to indicate that the investor is an outsider. However such evidence is not conclusive on its own. It must be considered together with all other information when determining if participants are outsiders.

## Basis for conclusions

BC1 The *IFRS for SMEs* sets (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. The notion 'broad group' implies that entities holding assets in a fiduciary capacity for just a few individuals would not be considered publicly accountable. However the *IFRS for SMEs* does not set a bright-line on what would be considered a broad group and judgement will therefore be necessary.

---

The IASB, the IFRS Foundation, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise. The following materials are drafts and may be subject to revision or change before formal issue.

Copyright © 2011 IFRS Foundation®

The IFRS for SMEs and IFRSs (which include International Accounting Standards and Interpretations) are copyright of the IFRS Foundation. The authoritative text of the IFRS for SMEs and IFRSs is that issued by the IASB in the English language. Copies may be obtained from the IFRS Foundation Publications Department. Please address publication and copyright matters to:

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](mailto:publications@ifrs.org) | Web: [www.ifrs.org](http://www.ifrs.org)

All rights reserved. No part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IFRS Foundation.

The IFRS for SMEs logo, the IFRS Foundation logo, the IASB logo, the "Hexagon Device", "IFRS Foundation", "eIFRS", "IAS", "IASB", "IASC Foundation", "IASCF", "IFRS for SMEs", "IASs", "IFRIC", "IFRS", "IFRSs", "International Accounting Standards", "International Financial Reporting Standards" and "SIC" are Trade Marks of the IFRS Foundation.

---