IFRS

STAFF PAPER

June 2022

IASB® meeting

Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Paper topic	Project direction and plan for redeliberations
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Purpose of this meeting

1. This paper asks the International Accounting Standards Board (IASB) to decide the project direction for its project *Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures*. Particularly;
   (a) whether the IASB should proceed with its proposals set out in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) and thus develop a final IFRS Accounting Standard; and
   (b) the plan for deliberating the feedback on the Exposure Draft.

Structure of the paper

2. This paper is structured as follows:
   (a) staff recommendations (paragraphs 3–4);
   (b) background (paragraphs 5–12);
   (c) key messages on the Exposure Draft (paragraphs 13–18);
   (d) project direction and plan for redeliberations (paragraphs 19–31);
   (e) 'catch-up' exposure draft (paragraphs 32–38);
   (f) next steps (paragraph 39); and
   (g) Appendix A—order of redeliberation.

Staff recommendations

3. The staff recommend the IASB proceeds with its proposals and develops a final IFRS Accounting Standard.

4. If the IASB agrees to proceed to develop a final IFRS Accounting Standard, the staff also recommend that:

   (a) the IASB address the matters in paragraphs 22–29; and

   (b) the IASB does *not* to publish a 'catch-up' exposure draft.

Background

Why the IASB added the project to its Work Plan

5. The Exposure Draft sets out a proposal for a new IFRS Accounting Standard (draft Standard). The objective of the draft Standard is to permit a subsidiary (an eligible subsidiary) to apply reduced disclosure requirements based on the requirements in IFRS Accounting Standards[1] provided that:

   (a) the subsidiary does not have public accountability; and

   (b) its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

6. The IASB added the project the *Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures* to its 2017–2021 Work Plan based on feedback to the Request for Views: *2015 Agenda Consultation.* Respondents to the Request for Views asked that the IASB permit subsidiaries to apply reduced disclosure requirements based on IFRS Accounting Standards.

7. Respondents to the Request for Views said that applying the *IFRS for SMEs* Accounting Standard is unattractive to subsidiaries because there are recognition and measurement differences between the *IFRS for SMEs* Accounting Standard and IFRS Accounting Standards. For consolidation purposes, subsidiaries that report to a

[1] For purposes of this paper, IFRS Accounting Standards refers to IFRS Accounting Standards excluding the *IFRS for SMEs* Accounting Standard.

parent that applies IFRS Accounting Standards would prefer to apply reduced versions of the disclosure requirements in IFRS Accounting Standards to their own financial statements.

Approach to developing the proposed disclosure requirements (IASB's agreed approach)

8. In developing the proposed disclosure requirements, the IASB started by using the disclosure requirements of the *IFRS for SMEs* Accounting Standard because:

    (a) these disclosures are reduced from IFRS Accounting Standards; and

    (b) subsidiaries that are eligible to apply the draft Standard may also apply the *IFRS for SMEs* Accounting Standard.

9. In developing the proposed disclosure requirements in the draft Standard, the IASB sought to save time and resources by leveraging the work it had already completed when developing the disclosure requirements in the *IFRS for SMEs* Accounting Standard. Therefore, if the recognition and measurement requirements in IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard are:

    (a) the same—the IASB used the disclosure requirements from the *IFRS for SMEs* Accounting Standard in the draft Standard, making amendments to reflect language differences (minor tailoring).

    (b) different—the IASB created newly reduced versions of the disclosure requirements in IFRS Accounting Standards by applying the same principles it used when it developed the disclosure requirements in the *IFRS for SMEs* Accounting Standard (set out in paragraph BC157 of the Basis for Conclusions of the *IFRS for SMEs* Accounting Standard).

10. The *IFRS for SMEs* Accounting Standard requires fewer disclosures than IFRS Accounting Standards because the disclosure requirements are intended for non-publicly accountable entities (NPAEs). Users of NPAEs' financial statements have different information needs from users of publicly accountable entities' financial statements. By using the disclosure requirements in the *IFRS for SMEs* Accounting Standard, or by applying the same simplification principles that were previously used to create those reduced disclosures, the IASB saved time and resources.

11. The IASB can be satisfied that the disclosures created using this approach are fit for purpose because the *IFRS for SMEs* Accounting Standard works well in practice and has been subject to two comprehensive reviews. Therefore, the IASB can be confident that any newly reduced disclosure requirements that it has created for the draft Standard using the same approach will meet user needs.

12. If the draft Standard becomes a final IFRS Accounting Standard, the IASB has tentatively decided to consider amendments to the Standard when it publishes an exposure draft of a new or amended IFRS Accounting Standard.

Key messages on the Exposure Draft

13. In April 2022, the IASB discussed the feedback from comment letters and outreach events on the Exposure Draft.

14. Most respondents agreed with the objective of the draft Standard. Many reiterated the expected benefits of the proposals—reducing costs and simplifying the preparation of financial statements. Some respondents noted concerns about how the draft Standard interacts with local regulations.

15. Respondents had mixed views on the proposed scope of the draft Standard. Although, some respondents agreed with the proposed scope of the draft Standard, many respondents suggested a wider scope allowing more entities to apply the draft Standard. However, respondents had different views on what the wider scope should be. Some respondents also suggested that the IASB considers widening the scope at a later stage, for example, after the draft Standard has been effective for a period of time.

16. Many respondents agreed with the IASB's approach to developing the proposed disclosure requirements in the draft Standard. Some respondents had concerns about how the proposed disclosure requirements were developed and the relationship between the draft Standard and the *IFRS for SMEs* Accounting Standard.

17. Many respondents provided comments on the proposed disclosure requirements of the draft Standard. These comments were wide-ranging across different IFRS Accounting Standards.

18. There were mixed views on the structure of the draft Standard. Many agreed that the draft Standard should be a separate IFRS Accounting Standard and that disclosure requirements should be organised by Standard. However, many disagreed with including footnotes in the main body of the draft Standard to identify those disclosure requirements in other IFRS Accounting Standards that continue to apply.

Project direction and plan for redeliberations

19. The feedback on the Exposure Draft provides evidence to support the IASB proceeding with its proposals to develop a final IFRS Accounting Standard. Although there are concerns about certain aspects of the proposals there is strong support to permit eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. The staff is recommending that the IASB proceed to develop a final IFRS Accounting Standard.

20. If the IASB decides to proceed with its proposals and develop a final standard, it will need to consider:

    (a) matters raised in the feedback on the Exposure Draft (paragraphs 21–31); and

    (b) whether to publish a ‘catch-up’ exposure draft (paragraphs 32–38).

Plan for redeliberation

21. If the IASB decides to proceed with its proposals and develop a final standard, it will need to consider matters raised in the feedback on the Exposure Draft. To assist the IASB in considering the feedback, the staff have identified topics for discussion and grouped these as follows:

    (a) objective and scope (paragraphs 22–23);

    (b) how disclosure requirements were developed (paragraphs 24–26);

    (c) proposed disclosure requirements (paragraphs 27–28); and

    (d) applying the draft Standard (paragraph 29).

Objective and scope

22. In May 2022, the IASB discussed whether the proposed scope of the draft Standard is appropriate for the purposes of finalising the draft Standard. In that meeting, the IASB tentatively decided to:[2]

    (a) confirm the scope as proposed in the draft Standard; and

    (b) review that scope after the draft Standard has been finalised, possibly during the post-implementation review.

    The IASB also tentatively decided to provide guidance to improve understandability of the description of 'public accountability'. The IASB will continue this discussion at its June 2022 meeting.

23. Feedback on the Exposure Draft highlighted that the IASB should consider further in developing a final Standard:

    (a) the proposed objective of the draft Standard.

    (b) interaction of the draft Standard with local regulations and whether the IASB can address these issues, particularly:

        (i) how the scope of the draft Standard interacts with local regulations. For example, feedback was that some jurisdictions have a notion of a 'public interest entity (PIE)'. In these jurisdictions, entities that are PIEs are required to apply IFRS Accounting Standards. However, some entities that are PIEs would be eligible to apply the draft Standard because draft Standard is an IFRS Accounting Standard. Some regulators, in these jurisdictions, would prefer PIEs to continue to apply full IFRS Accounting Standards instead of the draft Standard.

        (ii) how the form of the draft Standard would interact with a jurisdiction's endorsement process (or the absence thereof) in adopting the [draft] Standard. Feedback suggests that adoption of the draft Standard depends on a jurisdiction's endorsement process.

        (iii) whether to extend the eligibility of entities that can apply the draft Standard to those within groups using local GAAPs that might be

[2] See May 2022 *IASB update*.

deemed as equivalent of IFRS Accounting Standards. The proposal in the draft Standard is that to be eligible to apply the draft Standard, a subsidiary should have a parent, ultimate or intermediate, that produces consolidated financial statements complying with IFRS Accounting Standards.

(iv) how to apply requirements in the draft Standard when a jurisdiction has carved-out some requirements in IFRS Accounting Standards. For example, feedback was that some jurisdictions do not apply IFRS 14 *Regulatory Deferral Accounts*. However, the draft Standard proposes reduced disclosure requirements for IFRS 14.

(c) consider whether to clarify when financial statements are 'available for public use'. The term is already used in several IFRS Accounting Standards but some respondents said that the term is fundamental to the scope criteria and additional clarification is needed.

How disclosure requirements are developed

24. Feedback on the Exposure Draft highlighted the following areas the IASB should consider further in developing a final Standard:

(a) whether any aspect of the approach for developing the proposed disclosure requirements (agreed approach) should be modified or refined; and

(b) whether the exceptions made to the agreed approach are suitable and if additional exceptions to the agreed approach are necessary.

25. Feedback on the Exposure Draft was that the IASB should consider refining aspects of the agreed approach for developing the disclosure requirements. Any modifications or refinements to the agreed approach should also be considered in addressing comments on the proposed disclosure requirements. Since the agreed approach is fundamental to the proposals in the draft Standard (as the draft Standard *only* sets out disclosure requirements), the IASB should discuss this matter as a high priority.

26. Feedback included some concerns about the disclosure requirements that are exceptions to the agreed approach for developing disclosures. Therefore, the IASB should redeliberate why it permitted exceptions to the agreed approach. In addition, the IASB should consider whether additional exceptions are necessary as part of its

redeliberation on the proposed disclosure requirements because of their interaction and the overlap of comments (see paragraphs 27–28).

Proposed disclosure requirements

27. Comments on the proposed disclosure requirements in the draft Standard were diverse and wide-ranging, addressing many different disclosure requirements. The staff plan to analyse the comments received on proposed disclosure requirements of the draft Standard including proposed disclosure requirements about transition to other IFRS Accounting Standards and about insurance contracts.

28. Due to the volume of comments on the proposed disclosure requirements, the staff plan to devise a process for identifying which disclosure requirements should be reconsidered by the IASB. We will ask the IASB to approve this process. If the IASB approves this process, the staff would:

    (a) Step 1—analyse all comments on the proposed disclosure requirements applying the process agreed with the IASB.

    (b) Step 2—present a summary of the analyses to the IASB and proposals on which disclosure requirements should be changed—added, deleted, or clarified—in the draft Standard.

Other matters related to applying the draft Standard

29. The following areas, highlighted by respondents to the Exposure Draft, should be considered further in developing a final Standard:

    (a) the statement of compliance with IFRS Standards;

    (b) applying paragraph 16 of the draft Standard (guidance on when additional disclosures should be provided);

    (c) interaction of the draft Standard with IFRS 1 *First-time Adoption of International Financial Reporting Standards*;

    (d) other transition-related issues, including:

        (i) electing or revoking to apply the draft Standard and the interaction with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(ii) whether an entity that was a subsidiary during the reporting period but ceased to be a subsidiary before the end of the reporting period should be permitted to apply the draft Standard;

(e) structure and form of the draft Standard including whether it should be part of IFRS Accounting Standards; and

(f) other matters:

(i) the interaction of the draft Standard with other IASB projects (for example, Targeted-Standards Level Review of Disclosures project, the *IFRS for SMEs* Accounting Standard and IFRS Accounting Taxonomy); and

(ii) maintenance of the draft Standard.

30. Appendix A sets out a proposed order for the IASB to consider the feedback on the Exposure Draft.

31. Although we are asking the IASB to confirm the project direction and work towards a final Standard, the IASB will have the opportunity to review the outcomes of the redeliberations and whether it remains of the view that a final Standard should be issued.

‘Catch-up’ exposure draft

32. In developing the proposed disclosure requirements in the draft Standard, the IASB considered issued IFRS Accounting Standards as at 28 February 2021, and exposure drafts published as at 1 January 2021[3].

33. If the IASB decides to proceed with its proposals and develop a final IFRS Accounting Standard, the IASB could undertake one of two actions:

(a) To ensure the final Standard includes reduced disclosure requirements for all IFRS Accounting Standards in issue at the date the final Standard is issued, the IASB could publish an exposure draft considering amendments to IFRS Accounting Standards issued after 28 February 2021 (‘catch-up’

[3] The Exposure Draft *General Presentation and Disclosures* was not considered by the IASB in developing the proposed disclosure requirements in the draft Standard.

exposure draft). For example, this could include reduced disclosure requirements for amendments to IAS 12 *Income Taxes* on deferred tax related to assets and liabilities arising from a single transaction (issued in May 2021) and amendment to IFRS 16 *Leases* on Covid-19-related rent concessions beyond 30 June 2021 (issued in March 2021).

(b) Alternatively, the IASB could redeliberate the proposals in the Exposure Draft and develop a final IFRS Accounting Standard. Amendments to (and new) IFRS Accounting Standards issued after 28 February 2021 would be considered *after* the final IFRS Accounting Standard is issued.

34. If the IASB decides to publish a 'catch-up' exposure draft, then the IASB should also consider any amendments to (and new) IFRS Accounting Standards that it plans to issue by the time the Standard is issued. Assuming a final Standard is issued Q4 2023, projects in the IASB Work Plan that *could* result to amendments to IFRS Accounting Standards are projects on *Supplier Finance Arrangement*, *Lack of Exchangeability (Amendments to IAS 21)* and *Lease Liability in a Sale and Leaseback*.

35. In accordance with paragraph 6.7 of the *Due Process Handbook*, exposure drafts have a minimum period of 120 days for comment. If the matter is narrow in scope *and* urgent, the IASB may set a shorter comment period (but no less than 30 days) after approval by the Due Process Oversight Committee. If the 'catch-up' exposure draft is published, it might have a narrow scope (ie few or limited new disclosure requirements) but is not necessarily urgent.

36. In view of the comment period and the additional work that would be required by the IASB to develop and publish the exposure draft, stakeholders in responding to an exposure draft, and the IASB to consider feedback to an exposure draft it is likely that this would delay issuing the final IFRS Accounting Standard into 2024.

37. On balance, the staff is recommending that the IASB does not publish a 'catch-up' exposure draft. If the project meets its objective, it will provide relief to preparers within its scope—any delay from finalising the proposals would delay the benefits available to these preparers.

38. The staff think it might be more efficient if the IASB considers a ‘catch-up’ exposure draft once it has completed the *Primary Financial Statements* project which will replace IAS 1 *Presentation of Financial Statements* and amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Next steps

39. If the IASB agrees to proceed to develop a final IFRS Accounting Standard, the staff will consult with the IASB’s consultative groups (for example, with ASAF, GPF, EEG and possibly the SME Implementation Group) on specific topics as appropriate.

Questions for the IASB

Questions for the IASB
1. Does the IASB agree with the staff recommendation to proceed with its proposals and develop a final IFRS Accounting Standard? 2. Does the IASB agree with the staff recommendation for considering the feedback on the proposals in the Exposure Draft as stated in paragraphs 22–29 of this paper? 3. Does the IASB agree *not* to publish a ‘catch up’ exposure draft that consider amendments to (and new) IFRS Accounting Standards issued after 28 February 2021 before finalising the IFRS Accounting Standard?

Appendix A—Order of redeliberation

A1. The staff plan to present papers to facilitate the IASB's redeliberation of proposals in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* in the order listed in the table below. In May 2022, the IASB discussed the proposed scope of the draft Standard (see paragraph 22). The staff plan to present papers for other topics to continue the IASB's redeliberation in the fourth quarter of 2022.

Topics
Topic 1—*Objective and scope of the draft Standard* • scope of the draft Standard (discussed in May 2022)
Topic 1—*Objective and scope of the draft Standard* • objective of the draft Standard **Topic 2—*How disclosure requirements are developed*** • retain or modify/refine aspects of the agreed approach **Topic 3—*Proposed disclosure requirements*** • discussing and developing plan for revaluating disclosures
Topic 1—Objective and scope of the draft Standard • interaction of the draft Standard with local regulations • clarifying the term 'available for public use'
Topic 3—Proposed disclosure requirements • disclosure requirements in the draft Standard ***Topic 4—Applying the draft Standard*** • applying paragraph 16 of the draft Standard

Topics
Topic 4—Applying the draft Standard • statement of compliance (interaction of paragraph 22 and paragraph 110 of the draft Standard) • interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards* • transitioning to the draft Standard including interaction with IAS 8 and other transition-related issues • interaction with other IASB projects • maintenance of the draft Standard ***Topic 5—Structure and form of the draft Standard*** • comments on the organisation of proposed disclosures, footnotes that refer to disclosure requirements in other IFRS Accounting Standards, appendices to the draft Standard • whether the proposals should be set out in a separate IFRS Accounting Standard