Staff paper

Agenda reference: 31D

IASB® meeting

Date	**October 2022**
Project	**Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures***
Topic	**Structure of the draft Standard**
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Purpose of this paper

1. This paper asks the International Accounting Standards Board (IASB) to decide on the structure of the IFRS Accounting Standard (the Standard), proposed in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (draft Standard).

Summary of staff recommendations

2. The staff recommend the Standard:
   (a) omits Appendix A proposed in the draft Standard—that lists the disclosure requirements in other IFRS Accounting Standards replaced by the Standard; and
   (b) includes within the main body of the draft Standard a paragraph that cross-references to disclosure requirements in other IFRS Accounting Standards that remain applicable, replacing those footnotes related to disclosure requirements that remain applicable proposed in the draft Standard.

Structure of the paper

3. This paper is structured as follows:
   (a) background (see paragraphs 5–6);
   (b) summary of feedback on the Exposure Draft (see paragraphs 7–9);
   (c) Appendix A of the draft Standard (see paragraphs 10–22);
   (d) footnotes to the draft Standard (see paragraphs 23–32); and
   (e) summary of staff recommendation and question for the IASB (see paragraphs 33–34).

4. The appendices to this paper reproduce:

   (a) extracts from Agenda Paper 31A *Feedback from comment letters* of the April 2022 IASB meeting;

   (b) extracts from Agenda Paper 31B *Feedback from outreach events* of the April 2022 IASB meeting; and

   (c) extracts from Agenda Paper 2C *Structure of the draft Standard* of the September 2022 Accounting Standards Advisory Forum (ASAF) meeting.

Background

Question in the Invitation to Comment

5. Question 9 in the Invitation to Comment of the Exposure Draft asked whether respondents agreed with the structure of the draft Standard, including Appendix A. Respondents were asked why they agreed or why they did not agree. If they did not agree what alternatives they would suggest and why.

How the draft Standard is structured

6. The draft Standard is proposed to be a separate Standard within IFRS Accounting Standards. The draft Standard had the following structure:

   (a) a main body that includes the proposed disclosure requirements an eligible subsidiary would apply, organised under a subheading for each IFRS Accounting Standard (for example, the disclosure requirements for inventories are set out under the subheading IAS 2 *Inventories*);

   (b) Appendix A that lists the disclosure requirements in other IFRS Accounting Standards that would be replaced by the Standard; and

   (c) to assist application, disclosure requirements in other IFRS Accounting Standards that remain applicable are generally indicated in a footnote to the subheading of the IFRS Accounting Standard to which they relate.

Summary of feedback on the Exposure Draft

7. At its April 2022 meeting, the IASB discussed feedback on the Exposure Draft.[1] Feedback on the structure of the draft Standard include that most respondents expressed support for:

   (a) the draft Standard to be a separate Standard within IFRS Accounting Standards; and

   (b) the disclosure requirements in the draft Standard to be organised under the subheading of each IFRS Accounting Standard.

[1] See Agenda Paper 31A *Feedback from comment letters* and Agenda Paper 31B *Feedback from outreach events*.

8. However, respondents expressed mixed views about:

   (a) Appendix A of the draft Standard; and

   (b) the footnotes to the subheading of the IFRS Accounting Standards.

9. In September 2022, the staff asked ASAF members for their views on Appendix A of the draft Standard and on the use of footnotes to reference disclosure requirements in other IFRS Accounting Standards that remain applicable—as proposed in the draft Standard. Feedback from ASAF members are set out in paragraphs 13–15 and 26–27 of this paper.

Appendix A of the draft Standard

10. Appendix A was proposed as an integral part of the draft Standard and set out the disclosure requirements in other IFRS Accounting Standards that do not apply to an eligible subsidiary applying the draft Standard (that is, those that are replaced by the proposed disclosure requirements in the main body of the draft Standard).

Feedback on the Exposure Draft[2]

11. Some respondents supported retaining Appendix A. These respondents said that Appendix A provides a useful list of disclosure requirements that are not required when applying the draft Standard, which would facilitate the application of the Standard and preparation of financial statements. Albeit some respondents said the disclosure requirements listed in Appendix A should be incorporated into the main body of the draft Standard rather than included as an appendix to the Standard.

12. Some respondents did not support retaining Appendix A. These respondents said that the disclosure requirements listed in Appendix A could be confusing to preparers because they are requirements that do not apply. Further, setting out disclosure requirements that do not apply is a departure from the usual format of IFRS Accounting Standards.

Feedback from ASAF members

13. Some ASAF members supported retaining Appendix A as proposed in the draft Standard. ASAF members holding this view said:

    (a) Appendix A provides a good guide for entities applying the draft Standard whilst facilitating stakeholders' understanding;

    (b) Appendix A is necessary for compliance purposes to justify disclosure requirements in other IFRS Accounting Standards that an entity applying the draft Standard need not apply; and

    (c) Appendix A complements those disclosure requirements in the draft Standard as it clearly identifies disclosure requirements in other IFRS Accounting Standards that do not apply.

[2] See the appendices to this paper for more detailed summary

14. Some ASAF members said the IASB should omit Appendix A because it:

    (a) is not relevant to the application of the draft Standard thus complicates usage of the draft Standard;

    (b) may be viewed as a list of disclosure requirements that eligible subsidiaries are prohibited from applying; and

    (c) would require updating each time the IASB amends or introduces disclosure requirements in other IFRS Accounting Standards—therefore consuming IASB resources.

15. Other comments from ASAF members on Appendix A include:

    (a) a few ASAF members said that the benefits of Appendix A in listing disclosure requirements that are not required when applying the Standard is limited to an entity's first-time application of the Standard specifically when a subsidiary transitions from full IFRS Accounting Standards.

    (b) an ASAF member was of the view that accounting firms are likely to independently produce a list similar to Appendix A of the draft Standard, if the IASB decides to finalise the Standard without the appendix. This could lead to diversity in application of the Standard.

    (c) a few other ASAF members asked that the IASB consider listing disclosure requirements that are not required when applying the Standard separately as education material.

Staff analysis

16. In developing the draft Standard, the IASB specifically considered the inclusion of Appendix A. It noted Appendix A would facilitate:

    (a) identifying exemptions from disclosure requirements in other IFRS Accounting Standards—Appendix A specifically exempts eligible subsidiaries from disclosure requirements in other IFRS Accounting Standards. In some jurisdictions, the requirements of IFRS Accounting Standards are encoded into law and explicit exemptions would be needed to exempt the disclosure requirements included in law.

    (b) application of the draft Standard—Appendix A provides clarity and addresses the blurring between use of the terms 'presentation' and 'disclosure' in the requirements of IFRS Accounting Standards. An eligible subsidiary applying the draft Standard would apply presentation requirements in other IFRS Accounting Standards and would benefit from the clarification on which disclosure requirements are exempt as listed in Appendix A.[3]

17. In Agenda Paper 31 *Sweep issues* of the May 2021 IASB meeting, the staff observed that including Appendix A as part of the Exposure Draft would provide guidance to stakeholders that may help them

[3] See paragraphs 16–25 of Agenda Paper 31 *Sweep issues* of the May 2021 IASB meeting and IASB Update May 2021

better understand and comment on the proposals. However, there may be different benefits of retaining Appendix A as part of the Standard.

18. The IASB's proposal to permit eligible subsidiaries to provide reduced disclosures (that is, the draft Standard) is a new approach for the IASB and its stakeholders. The staff acknowledge that Appendix A:

(a) provides helpful guidance for stakeholders (in particular for preparers that transition from applying disclosure requirements in full IFRS Accounting Standard to the Standard); and

(b) facilitates a preparer's cost-benefit assessment in considering whether to elect to apply the Standard.

19. Omitting Appendix A would address respondents' concerns that listing disclosure requirements that do not apply confuses preparers. Appendix A states 'the following paragraphs do not apply to an entity that applies this [draft] Standard'. However, paragraph 16 of the draft Standard explains there are circumstances when an entity considers whether to provide addition disclosures to those required by the draft Standard. Omitting Appendix A simplifies application of the Standard and avoids an ambiguity between Appendix A and paragraph 16. Furthermore, the staff agrees with those respondents that listing disclosure requirements that are not required in Appendix A is a departure from the usual approach in IFRS Accounting Standards.

Staff recommendation

20. Overall, respondents and ASAF members have mixed views. The staff think the most compelling reason to retain Appendix A in the Standard is for compliance purposes to justify disclosure requirements in other IFRS Accounting Standards that an entity applying the draft Standard need not apply. However, the staff also considers it is necessary to balance the compliance purpose of Appendix A with concerns about potential confusion of the purpose of Appendix A and the cost of maintaining the appendix in the Standard.

21. On balance, the staff recommend the IASB omits Appendix A proposed in the draft Standard—that lists the disclosure requirements in other IFRS Accounting Standards replaced by the Standard.

22. Should the IASB not agree with the staff recommendation and instead decide to retain Appendix A of the draft Standard then it will be necessary to address the relationship between Appendix A and paragraph 16 of the draft Standard. The staff think this could be addressed by amending the words 'do not apply' to 'need not apply'.

Footnotes to the draft Standard

23. In developing the Exposure Draft, the IASB concluded that some disclosure requirements in other IFRS Accounting Standards would remain applicable to eligible subsidiaries applying the draft Standard (that is, they would not be replaced by the draft Standard). These include:

    (a) disclosure requirements that should be easier for preparers to consider in situ because the paragraphs that follow them contain requirements about their application;

    (b) disclosure requirements embedded in paragraphs that include recognition, measurement or presentation requirements; and

    (c) disclosure requirements that use the term 'disclosure' in a broad sense, encompassing items presented on the face of the primary financial statements.[4]

24. Disclosure requirements in other IFRS Accounting Standards that remain applicable are generally stated in a footnote to the subheading of the IFRS Accounting Standard to which they relate.[5]

Feedback on the Exposure Draft[6]

25. Some respondents agreed with the use of footnotes in the draft Standard to identify disclosure requirements in other IFRS Accounting Standards that remain applicable. However, most respondents disagreed with this use of footnotes because some preparers and auditors might overlook or be confused by the footnotes. Many respondents suggested the IASB either list or reproduce the disclosure requirements in the footnotes in the main body of the draft Standard.

Feedback from ASAF members

26. Feedback from ASAF members suggested that they agreed it would be useful to identify disclosure requirements in other IFRS Accounting Standards that remain applicable when applying the draft Standard, most ASAF members disagreed with removing the footnotes altogether. A few ASAF members were neutral on retaining the footnotes as proposed in the draft Standard.

27. Many ASAF members preferred listing disclosure requirements in other IFRS Accounting Standards that remain applicable in the main body of the Standard because it:

    (a) eases application of the Standard by aggregating all required disclosure requirements in 'single place'; and

    (b) reduces risk of unintended omission.

[4] See paragraph BC70 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*

[5]See paragraph BC70 of the Basis for Conclusion on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*

[6] See the appendices to this paper for more detailed summary

Staff analysis

28. The staff explored several alternatives to structuring disclosure requirements in other IFRS Accounting Standards that remain applicable in the Standard during the September 2022 ASAF meeting.[7]

29. As stated in paragraphs 25–27 of this paper, overall feedback supported stating disclosure requirements in other IFRS Accounting Standards that remain applicable in the main body of the Standard. The IASB could incorporate these disclosure requirements in the main body of the Standard either by:

    (a) reproducing the full text of those disclosure requirements in the main body of the Standard; or

    (b) cross-referencing to those disclosure requirements in the main body of the Standard.

30. Due to the nature of those disclosure requirements in other IFRS Accounting Standards that remain applicable, the staff does not recommend reproducing the full text of those disclosure requirements that remain applicable in the main body of the Standard. This is because the staff think that doing so would complicate application of the Standard and potentially lead to the inclusion of some recognition, measurement or presentation requirements in the Standard when these requirements cannot be separated from disclosure requirements. For example, paragraph 22 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* set out:

    > 'A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.'[8]

31. In the staff's view, the IASB could cross-reference to disclosure requirements in other IFRS Accounting Standards that remain applicable in a single paragraph in the main body of the Standard. The staff considers this approach assists application of the Standard more successfully than referring to those disclosure requirements that remain applicable by including the cross reference within the IFRS Accounting Standard subheading to which they relate. This approach aggregates within a single paragraph those disclosure requirements that remain applicable to an eligible subsidiary applying the Standard.

[7] All four alternatives identified by staff were presented to ASAF members in September 2022. The advantages and disadvantages of these alternatives are summarised in Appendix III to this paper.

[8] Paragraph 22 of IAS 20 remains applicable to an entity applying the draft Standard as referenced in footnote 10 of the draft Standard.

Staff recommendation

32. The staff recommend the IASB includes within the main body of the Standard a paragraph that cross-references to disclosure requirements in other IFRS Accounting Standards that remain applicable, replacing those footnotes related to disclosure requirements that remain applicable proposed in the draft Standard.

Summary of staff recommendations and question for the IASB

33. As set out in paragraphs 21 and 32 of this paper, the staff recommend the Standard:

    (a) omits Appendix A proposed in the draft Standard—that lists the disclosure requirements in other IFRS Accounting Standards replaced by the Standard; and

    (b) includes within the main body of the draft Standard a paragraph that cross-references to disclosure requirements in other IFRS Accounting Standards that remain applicable, replacing those footnotes related to disclosure requirements that remain applicable proposed in the draft Standard.

34. Should the IASB disagree with the staff recommendation in paragraph 33 of this paper, the IASB will need to include either a list of disclosure requirements in other IFRS Accounting Standards that remain applicable (those referred to in the footnotes to the draft Standard) or a list of disclosure requirements in other IFRS Accounting Standards that need not be applied (those referred to in Appendix A of the draft Standard). This is because removing both Appendix A and the footnotes would prevent preparers from identifying disclosure requirements that remain applicable when applying the Standard.

Question for IASB members
Does the IASB agree with staff recommendation set out in paragraph 33 of this paper?

Appendix I: Extracts from Agenda Paper 31A *Feedback from comment letters* of the April 2022 IASB meeting

A1. This appendix reproduces paragraphs 63–74 of Agenda Paper 31A of the April 2022 IASB meeting:

Organisation by IFRS Accounting Standards

63. Almost all respondents who commented supported organising the disclosure requirements in the draft Standard by IFRS Accounting Standard. These respondents agreed with the IASB's reasoning that this approach avoids the need to reproduce the scope of each IFRS Accounting Standard within the draft Standard.

Footnotes

64. Respondents who commented on the footnotes expressed mixed views.

65. Some respondents agreed with identifying the disclosure requirements in other IFRS Accounting Standards that remain applicable in footnotes. One respondent suggested providing an appendix summarising all the disclosure requirements referred in the footnotes to facilitate application of the footnotes in the draft Standard.

66. Most respondents disagreed with the use of footnotes because some preparers and auditors might:

(c) view the footnotes as unimportant, which could lead to unintended omission of the disclosure requirements in the footnotes;

(d) find it challenging to navigate the three separate sections (the main body of the draft Standard, footnotes and Appendix A) within the draft Standard as well as referring to other IFRS Accounting Standards in determining the disclosure requirements; and

(e) be confused by the proposed use of footnotes as it would be a departure from the usual format in IFRS Accounting Standards.

67. The Institute of Chartered Accountants in England and Wales said:

> *In our view, for the draft Standard to be user-friendly and comprehensible there should be a full list of all required disclosures within the body of the Standard. The use of footnotes to reference disclosure requirements in other Standards makes it difficult to use as the disclosure requirements for an individual topic might be spread across multiple locations. …*

68. Alternatively, many respondents suggested the IASB either list or reproduce the disclosures requirements in the footnotes in the main body of the draft Standard under the subheading of the relevant IFRS Accounting Standard. They noted this would facilitate application of the draft Standard for both preparers and auditors.

Appendix A of the draft Standard

69. Respondents who commented on Appendix A expressed mixed views.

70. Some respondents supported retaining Appendix A when the draft Standard is finalised and said Appendix A provides a useful list of disclosure requirements that are not required when applying the draft Standard.

71. Some respondents said the disclosure requirements listed in Appendix A should be incorporated into the main body of the draft Standard within the subheading of the IFRS Accounting Standard to which they relate. Respondents who hold this view said that such an approach would:

    (a) improve usability of the draft Standard, rather than requiring a subsidiary to navigate three separate sections of the draft Standard (the main body of the draft Standard, footnotes and Appendix A); and

    (b) clearly identify disclosure requirements that do and do not apply to eligible subsidiaries applying the draft Standard.

72. Some respondents did not support retaining Appendix A if the draft Standard is finalised. Respondents holding this view noted that disclosure requirements listed in Appendix A could be confusing to preparers because they are requirements that need not be applied.

Separate IFRS Accounting Standard

73. Many respondents supported the IASB's proposal for the draft Standard to be a separate Standard within the IFRS Accounting Standards. However, a few respondents were of the view that the draft Standard should be developed as a separate stand-alone framework (like the *IFRS for SMEs* Accounting Standard) that includes recognition, measurement and presentation requirements because the issuance of a single comprehensive document would:

    (a) facilitate application of the draft Standard as eligible subsidiaries would only need to refer to 'one place' when preparing their financial statements;

    (b) avoid confusion about the basis of preparation and statement of compliance;

    (c) provide users of eligible subsidiary's financial statements with clarity about the financial reporting framework applied; and

    (d) ensure that it stands on its own as a complete Standard.

74. Of those who disagreed with the draft Standard being a separate IFRS Accounting Standard, a few respondents suggested the IASB incorporate the proposed disclosure requirements in IFRS Accounting Standards on a Standard-by-Standard basis.

Appendix II: Extracts from Agenda Paper 31B *Feedback from outreach events* of the April 2022 IASB meeting

B1. This appendix reproduces paragraph 27 of Agenda Paper 31B of the April 2022 IASB meeting.

> 27. Most participants agreed with the proposal to have a separate IFRS Accounting Standard and to organise the disclosure requirements by Standard. However, some participants thought such an approach was confusing because to understand the requirements of the draft Standard, a subsidiary needs to look at three different sections—the main body, other IFRS Accounting Standards (for references in the footnotes) and Appendix A. In particular:
>
> (a) many participants had reservations about the footnotes. Some said including requirements in a footnote implies that they are unimportant and preparers might ignore them. Some suggested that these requirements should be included within their respective disclosure sections in the main body of the draft Standard.
>
> (b) some participants find Appendix A helpful. However, some participants suggest that these requirements should instead be listed within their respective disclosure sections in the main body of the draft Standard.

Appendix III: Extracts from Agenda Paper 2C *Structure of the draft Standard* of the September 2022 ASAF meeting

C1. This appendix reproduces paragraph 21-29 of Agenda Paper 2C of the September 2022 ASAF meeting.

Alternative A—appendix

21. Listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in an appendix might:

    (a) ease application of the draft Standard as the references would be aggregated in a single 'place';

    (b) reduce the risk of unintended omissions by preparers and facilitate preparation of financial statements; and

    (c) distinguish these disclosure requirements from the disclosure requirements required by the draft Standard itself.

22. However, listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in an appendix may be counterintuitive as preparers would then need to refer to two different 'places'—that is, the main body and the appendix—to identify the required disclosures applying the draft Standard. Furthermore, listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in an appendix may appear not to give these disclosure requirements equal prominence with those set out in the main body of the draft Standard.

Alternative B—main body

23. Listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in the main body of the draft Standard could also mitigate concerns that these requirements may be overlooked and lead to unintended omissions. This alternative would be more consistent with the usual format in IFRS Accounting Standards—that is, requirements are listed in the main body rather than a footnote or in an appendix. Listing the references in the main body may also be seen to give equal prominence to these disclosure requirements and the disclosure requirements developed applying the IASB's agreed approach.

24. This alternative would, however, lead to a duplication of disclosure requirements. Listing these disclosure requirements in the main body of the draft Standard posits that these disclosure requirements are also disclosure requirements of the draft Standard. Under this alternative, an eligible subsidiary would effectively be subject to the same disclosure requirements twice—that is, as disclosure requirements in other IFRS Accounting Standards (those not identified in

Appendix A of the draft Standard) and as disclosure requirements listed in the main body of the draft Standard.

Alternative C—retain footnotes

25. Retaining references to disclosure requirements in other IFRS Accounting Standards that remain applicable in footnotes as proposed in the Exposure Draft, would enable preparers and auditors to consider these requirements together with those disclosure requirements proposed in the main body of the draft Standard. Using footnotes can be seen as a middle ground between Alternative A and Alternative B.

26. However, as set out in paragraph 19 of AP2C of September 2022 ASAF meeting, respondents to the Exposure Draft said that the use of footnotes may lead to unintended omission of disclosures and confusion among preparers.

Alternative D—remove footnotes

27. Removing references to disclosure requirements in other IFRS Accounting Standards that remain applicable from the draft Standard (ie, removing the footnotes altogether) is a viable alternative if Appendix A of the draft Standard is retained as an integral part of the Standard. Implicitly any disclosure requirements in other IFRS Accounting Standards that are not listed in Appendix A remain applicable.

28. Alternative D would ease navigation of the draft Standard as it essentially structures the draft Standard into two rather than three parts. Nevertheless, staff think doing so introduces complexity as preparers of financial statements would have to perform the exercise of identifying those disclosure requirements in other IFRS Accounting Standards that remain applicable themselves by reconciling disclosure requirements in Appendix A to those in other IFRS Accounting Standards.

Summary

29. Due to the nature of those disclosure requirements in other IFRS Accounting Standards that remain applicable, the staff have not suggested an alternative of reproducing the full text of those disclosure requirements in the main body of the draft Standard (rather than just the references to the disclosure requirements). This is because the staff think that doing so would complicate application of the draft Standard and potentially lead to the inclusion of some recognition, measurement or presentation requirements in the draft Standard when these requirements cannot be separated from disclosure requirements.

C2. The table below summarises the advantages and disadvantages of the four alternatives identified by staff.

Alternatives	Advantage	Disadvantage
List in an Appendix	▪ Aggregates applicable disclosure requirements from other IFRS Accounting Standard in a ''single place' ▪ Reduces risks of unintended omission ▪ Distinguish these disclosure requirements from the disclosure requirements required by the draft Standard itself	▪ May be counterintuitive as preparers would need to refer to both main body and appendix to identify required disclosures
List in the main body	▪ Reduces risk of unintended omission ▪ More consistent with the usual format in IFRS Accounting Standards to list requirements in main body ▪ Ensures these disclosure requirements are given equal prominence to those developed applying IASB's approach	▪ Duplication of disclosure requirements (required by the draft Standard in addition to other IFRS Accounting Standards)
Retain footnotes as proposed	▪ Enables preparers and auditors to refer to these disclosure requirements together with the disclosure requirements of the draft Standard in the main body	▪ Risk of unintended omission ▪ Confusion among preparers ▪ Complicate navigation of the draft Standard
Remove footnotes	▪ Eases navigation of the draft Standard—entities only refer to main body and Appendix A. However this alternative is viable only if Appendix A is retained.	▪ Preparers have to identify the disclosure requirements in other IFRS Accounting Standard that remain applicable themselves.