July 2021

IFRS® Standards
Exposure Draft

Snapshot: *Subsidiaries without Public Accountability: Disclosures*

This Snapshot provides an overview of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published by the International Accounting Standards Board (Board) in July 2021.

The Board's objective:	To develop an IFRS Standard that permits eligible subsidiaries to apply reduced disclosure requirements with the recognition, measurement and presentation requirements in IFRS Standards.
Proposals:	A voluntary IFRS Standard for eligible subsidiaries that sets out: • the disclosure requirements for a subsidiary electing to apply it; and • the disclosure requirements in IFRS Standards that it would replace. The Board proposes that a subsidiary would be eligible to apply the draft Standard if, at the end of its reporting period, that subsidiary: • does not have public accountability; and • has a parent that produces consolidated financial statements available for public use applying IFRS Standards.
Next steps:	The Board will consider feedback on the Exposure Draft in developing the IFRS Standard.
Comment deadline:	31 January 2022

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Why is the Board undertaking this project?

To simplify and reduce the cost of financial reporting for subsidiaries applying IFRS Standards while maintaining the usefulness of their financial statements

The Board added this project to its research pipeline in response to feedback on the *Request for Views—2015 Agenda Consultation*. Stakeholders asked the Board to permit a subsidiary that reports to a parent applying IFRS Standards in its consolidated financial statements to apply IFRS Standards with reduced disclosure requirements.

Feedback on the 2015 Agenda Consultation

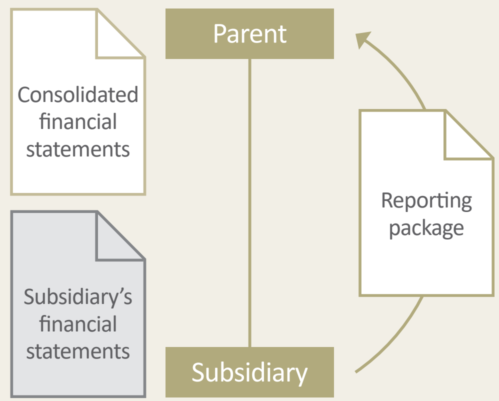
Many subsidiaries are not publicly accountable; however, a subsidiary applying IFRS Standards provides in its financial statements the same disclosures as those designed for publicly accountable entities.

The *IFRS for SMEs* Standard may be unattractive to some subsidiaries because they report to their parent company using IFRS Standards, which have different requirements from the *IFRS for SMEs* Standard.

Applying local GAAP or the *IFRS for SMEs* Standard requires additional accounting records, this consumes resources and adds to the cost of preparing financial statements for these subsidiaries.

What issues is the Board addressing?

The Board aims to reduce the cost of financial reporting for subsidiaries that report to a parent applying IFRS Standards while maintaining the usefulness of the subsidiary's financial statements to users.



What the draft Standard seeks to achieve

Reduce costs for preparers

- An eligible subsidiary could voluntarily apply the recognition, measurement and presentation requirements in IFRS Standards with reduced disclosure requirements. If the subsidiary currently applies:
  - IFRS Standards, the draft Standard would reduce the disclosures in the subsidiary's financial statements.
  - local GAAP or the *IFRS for SMEs* Standard, the draft Standard would remove the need for the subsidiary to maintain two sets of accounting records, allowing the subsidiary to use the same accounting policies in preparing its own financial statements and in reporting to its parent for consolidation purposes.

Maintain usefulness of financial statements

- Although a subsidiary would provide fewer disclosures than it would if it were to apply full IFRS Standards, the usefulness of the financial statements would be maintained because:
  - the disclosures would be tailored to the needs of the users of subsidiaries' financial statements; and
  - disclosures designed for publicly accountable companies would be removed.

The proposals could be applied by an eligible subsidiary in its consolidated, separate or individual financial statements. These proposals would **not** affect the information disclosed in the parent's consolidated financial statements.

Who can apply the draft Standard?

Subsidiaries without public accountability—the Board is proposing subsidiaries that meet the description of small and medium-sized entities (SMEs) as set out in the *IFRS for SMEs* Standard would be eligible to apply the draft Standard.

This eligibility criteria:

- responds to feedback from stakeholders calling for reduced disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards; and
- recognises that subsidiaries that may apply the draft Standard are also eligible to apply the *IFRS for SMEs* Standard (where available).

Eligibility criteria

❶ A subsidiary …

'Subsidiary' is defined in IFRS 10 *Consolidated Financial Statements*.

❷ … that at the end of the reporting period does *not* have public accountability …

A company has public accountability if its debt or equity instruments are traded in a public market or if it holds assets in a fiduciary capacity for a broad group of outsiders.

❸ … and has a parent that produces financial statements that comply with IFRS Standards.

A subsidiary is eligible if it has an ultimate or intermediate parent that produces consolidated financial statements applying IFRS Standards.

How the Board developed the disclosure requirements

The Board started with the disclosure requirements in the *IFRS for SMEs* Standard because they are already tailored to the needs of the users of the financial statements of companies without public accountability and incorporate cost–benefit considerations for those companies.

How did the Board develop the disclosure requirements?

The Board compared the recognition and measurement requirements in IFRS Standards and in the *IFRS for SMEs* Standard to identify any differences.

For example, for inventories, the Board considered differences in the recognition and measurement requirements between IAS 2 *Inventories* and Section 13 *Inventories* in the *IFRS for SMEs* Standard and applied the approach in Diagram 1 to determine how to develop the disclosure requirements.

Diagram 1—Developing the disclosure requirements

Is there a recognition and measurement difference between IFRS Standards and the *IFRS for SMEs* Standard?

No	Yes
Use the disclosure requirements in the *IFRS for SMEs* Standard but: • align terms and language with IFRS Standards • update paragraph cross-references	Tailor the disclosure requirements in IFRS Standards by applying the principles used to develop the disclosure requirements in the *IFRS for SMEs* Standard (see page 6)

In a limited number of cases, the Board made exceptions to the approach in Diagram 1. For example, the Board proposes to include a few recent improvements to disclosure requirements in IFRS Standards that are expected to benefit the users of the financial statements.

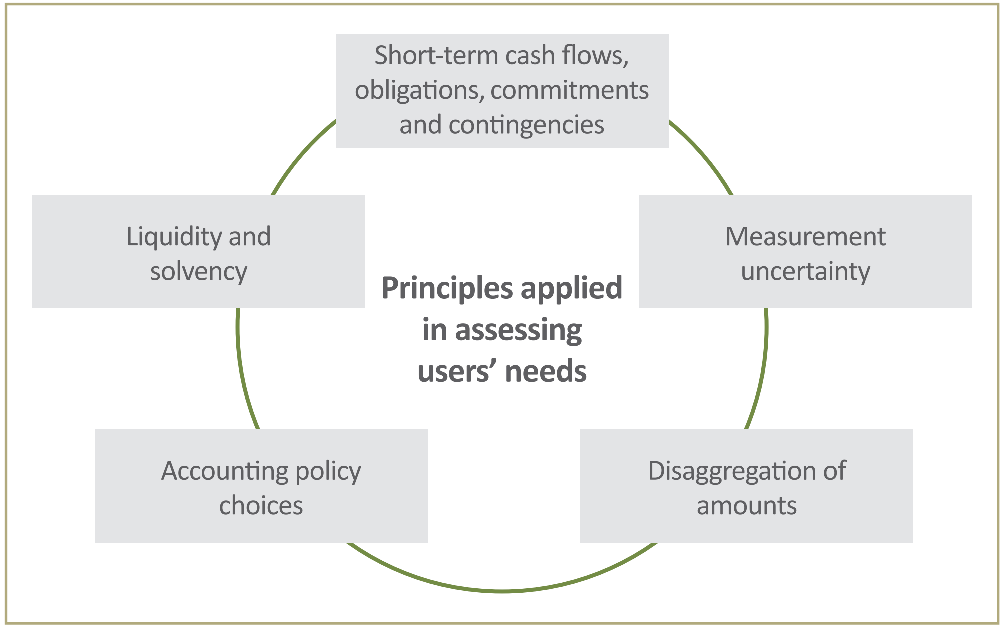
Principles applied in tailoring disclosure requirements

In tailoring the disclosure requirements in IFRS Standards, the Board considered users' information needs by applying the principles used when it developed the disclosure requirements in the *IFRS for SMEs* Standard. These principles are summarised in Diagram 2.

The Board's approach does not require it to develop new disclosure requirements because:

- when recognition and measurement requirements are the same, the disclosure requirements in the *IFRS for SMEs* Standard are used.
- when recognition and measurement requirements differ, the disclosure requirements in IFRS Standards are tailored.

Diagram 2—Principles applied in tailoring the disclosure requirements



In developing the disclosure requirements in the *IFRS for SMEs* Standard, the Board was guided by these five principles in considering users' information needs (which are in paragraph BC157 of the Basis for Conclusions to the *IFRS for SMEs* Standard). These principles identify the information that users find important.

Other key points to note...

❶ Compliance with the draft Standard

A subsidiary would be required to state that it has applied the draft Standard. This statement would be located with the subsidiary's statement of compliance with IFRS Standards (required by IAS 1 *Presentation of Financial Statements*).

❷ Transition to new or amended IFRS Standards

Disclosure requirements about transition included in a new or amended IFRS Standard would be required when applying the draft Standard.

❸ Disclosure requirements in IFRS Standards that are replaced

Appendix A of the draft Standard lists the disclosure requirements in IFRS Standards that are replaced when a subsidiary applies the draft Standard. Any disclosure requirements not listed in Appendix A remain applicable.

❹ Disclosure requirements in IFRS Standards that apply

Some disclosure requirements in IFRS Standards remain applicable when a subsidiary applies the draft Standard. They are generally indicated in a footnote to the subheading of the IFRS Standard to which they relate. An example is the analysis of expenses by nature or function required by IAS 1—this disclosure is easier to apply in situ because the paragraphs that follow it contain requirements about its application.

Further, the disclosure requirements in the following IFRS Standards remain applicable and are not included in draft Standard:

- IFRS 8 *Operating Segments*;
- IFRS 17 *Insurance Contracts*; and
- IAS 33 *Earnings per Share*.

The application of the disclosure requirements in these Standards is unchanged for a subsidiary applying the draft Standard.

Applying the draft Standard

Which requirements in IFRS Standards apply?

Apply recognition, measurement and presentation requirements in IFRS Standards

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Apply disclosure requirements in the draft Standard

Diagram 3—Structure of the draft Standard

Main body

- Objective
- Scope
- Electing to apply the draft Standard
- Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- Application of disclosure requirements
- Disclosure requirements (*organised by IFRS Standard*)

Appendices

- **A** Disclosure requirements in IFRS Standards replaced by this draft Standard
- **B** Effective date and transition
- **C** Amendments to other IFRS Standards

Illustration

Accounting for and reporting items of inventory

Apply recognition, measurement and presentation requirements in IAS 2 *Inventories*.

↓

Apply the disclosure requirements in the draft Standard (under the heading IAS 2 *Inventories*).

Some disclosure requirements in other IFRS Standards could also apply and these will generally be in a footnote as explained on page 7.

Transition and interaction with IFRS 1

The draft Standard has no specific transition provisions. Depending on how the preceding period's financial statements were prepared, the subsidiary might need to apply IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Scenario 1

20X1	20X2
Subsidiary applied the *IFRS for SMEs* Standard or a local GAAP	Subsidiary applies IFRS Standards and elects to apply the draft Standard

In subsidiary's financial statements for 20X2 year end:

- the subsidiary would apply IFRS 1 because that period would contain its **first financial statements** prepared applying IFRS Standards.
- the subsidiary would provide the disclosures required by the draft Standard (including for comparative information).

Scenario 2

20X1	20X2
Subsidiary applied IFRS Standards but **not** the draft Standard	Subsidiary applies IFRS Standards and elects to apply the draft Standard

In subsidiary's financial statements for 20X2 year end:

- the subsidiary would **not** apply IFRS 1 because it prepared financial statements applying IFRS Standards in the preceding period.
- the subsidiary would provide the disclosures required by the draft Standard (including for comparative information).

Ceasing to apply the draft Standard

If in 20X3 the subsidiary does not apply the draft Standard but continues to apply IFRS Standards, IFRS 1 would not apply. The subsidiary would provide the disclosures required by IFRS Standards in its financial statements for 20X3 year end (including for comparative information).

Other aspects of the draft Standard

Electing to apply the draft Standard more than once

Subsidiary applied IFRS Standards. It elected to apply the draft Standard in 20X2 but **not** in 20X3 (because its parent ceased to apply IFRS Standards).

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Can the subsidiary elect to apply the draft Standard again in future, for example, in 20X4 (provided it meets eligibility requirements)?

YES

The Board concluded that a subsidiary may elect to apply the draft Standard more than once.

Maintaining the draft Standard

The Board decided it would propose amendments to the draft Standard at the same time the Board publishes an exposure draft of a new or amended IFRS Standard. Doing so would facilitate discussions as it would enable the Board and stakeholders to consider these proposals at the same time.

Cost–benefit analysis of the Board’s proposal

The draft Standard is voluntary.
A subsidiary applying the draft Standard should satisfy itself that the benefits of applying it outweigh the costs.

Potential benefits of applying the draft Standard

- Removes the need for some subsidiaries to maintain two sets of accounting records—one for reporting to the parent and one for the subsidiary’s own financial statements
- Retains usefulness of financial statements for users because disclosures are tailored to meet their needs
- Minimise education and translation costs for stakeholders because, although it is a new Standard, the proposed disclosure requirements are based on the *IFRS for SMEs* Standard or IFRS Standards

First-time implementation costs of applying the draft Standard depends on how the subsidiary previously prepared its financial statements

Potential costs	1 National GAAP	2 *IFRS for SMEs* Standard	3 IFRS Standards
First-time implementation costs of applying IFRS Standards (IFRS 1)	✓	✓	✗
Other transition costs (identifying which disclosures to exclude)	✗	✗	✓

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