Staff paper

Agenda reference: 2

Accounting Standards Advisory Forum meeting

Date	**September 2022**
Project	**Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures***
Topic	**Cover paper**
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Purpose of the session

1. In June 2022, the International Accounting Standards Board (IASB) agreed a plan to redeliberate the proposals in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) towards finalising the draft IFRS Accounting Standard (draft Standard).

2. The purpose of this session is to:

   (a) provide an update on the Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures* project; and

   (b) ask Accounting Standards Advisory Forum (ASAF) members' views on:

      (i) whether the staff should recommend the IASB remove the requirement for the parent's consolidated financial statements to be 'available for public use' from the scope of the draft Standard (Agenda Paper 2A);

      (ii) the staff's suggested process to address comments on the proposed disclosure requirements (Agenda Paper 2B); and

      (iii) how to address feedback on the structure of the draft Standard (Agenda Paper 2C).

Structure of this paper

3. This paper sets out:

   (a) background to the project (see paragraphs 4–12);

   (b) key messages from feedback on the Exposure Draft (see paragraphs 13–18);

   (c) project update and next steps (see paragraphs 19–21); and

   (d) Appendix: Feedback on the approach applied to developing the proposed disclosure requirements.

Background to the project

4. The Exposure Draft sets out the proposal for a new IFRS Accounting Standard. The objective of the draft Standard is to permit a subsidiary (an eligible subsidiary) to apply reduced disclosure requirements when applying IFRS Accounting Standards 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.

5. The IASB added the project 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 IFRS Accounting Standards with reduced disclosure requirements.

6. 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 parent that applies IFRS Accounting Standards would prefer to apply IFRS Accounting Standards with reduced disclosure requirements in their own financial statements.

7. 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.

8. 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 reduced 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).

9. This approach should provide a similar outcome as if the IASB had developed the disclosure requirements in the draft Standard using the disclosure requirements in IFRS Accounting Standards as the starting point, and then applying the principles set out in paragraph BC157 of the Basis for Conclusions on 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 the same simplification principles that were previously used to develop those reduced disclosures, the IASB saved time and resources.

11. The IASB can be satisfied that the disclosures developed 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 from feedback on the Exposure Draft

13. At its April 2022 meeting, the IASB discussed 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 that 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 (see Appendix A for more detailed feedback).

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 update and next steps

19. At its May 2022 meeting, the IASB discussed the proposed scope of the draft Standard. At that meeting, the IASB tentatively decided to[1]:

    (a) confirm the scope as proposed in the draft Standard (see paragraph 4); and

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

20. At its June 2022 meeting, the IASB decided to proceed with its proposal for a new IFRS Accounting Standard as set out in the Exposure Draft and agreed a project plan for developing the new Accounting Standard. The IASB also tentatively decided to:

    (a) include in the new IFRS Accounting Standard disclosure requirements of IFRS Accounting Standards issued as of 28 February 2021; and

    (b) consider amendments to the disclosure requirements in IFRS Accounting Standards issued after 28 February 2021 after the new Standard is issued.[2]

21. The IASB will continue to redeliberate the proposals in the Exposure Draft in Q4 of 2022.

[1] See Agenda Paper 31A of the May 2022 IASB meeting and the IASB Update May 2022

[2] See Agenda Paper 31 of the June 2022 IASB meeting and the IASB Update June 2022

Appendix: Feedback on the approach applied to developing the proposed disclosure requirements

A1. Many respondents agreed with the approach applied to developing the proposed disclosure requirements (the IASB's approach). Some respondents expressed concerns or disagreed with the IASB's approach on the following reasons:

(a) disagreement with using the *IFRS for SMEs* Accounting Standard as the starting point in developing the disclosure requirements in the draft Standard:

(i) the IASB should have started directly with IFRS Accounting Standards in developing the disclosure requirements because the draft Standard will be part of IFRS Accounting Standards.

(ii) the information needs of users of eligible subsidiaries is different from those of other entities without public accountability (ie, those eligible to apply the *IFRS for SMEs* Accounting Standard).

(b) consideration of cost–benefit trade-off is not clearly explained in the IASB's agreed approach. Some disclosure requirements that are based on *IFRS for SMEs* Accounting Standard are costly for eligible subsidiaries to provide.