

STAFF PAPER

March 2019

IASB[®] Meeting

Project	SMEs that are subsidiaries		
Paper topic	Project update		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards or the *IFRS for SMEs*[®] Standard do not purport to set out acceptable or unacceptable application of IFRS Standards or the *IFRS for SMEs* Standard. Technical decisions are made in public and reported in IASB[®] *Update*.

Introduction

1. In 2016, the International Accounting Standards Board (Board) included in its research pipeline a project on SMEs that are subsidiaries. That research project has now become active. This paper reminds the Board of the objective of the project and provides some background information.
2. The Board will not be asked to make any decisions at this meeting.

Objective of project

3. The objective of this project is to assess whether it would be feasible to permit SMEs that are subsidiaries to apply the recognition and measurement requirements in IFRS Standards with the disclosure requirements in the *IFRS for SMEs*[®] Standard.
4. The project is intended to provide the Board with evidence to help it decide whether to add a project to its work plan to develop a proposal to implement that approach.

Background

5. In August 2015, the Board published a Request for Views: *2015 Agenda Consultation*. Some respondents suggested that the Board consider permitting subsidiaries to apply IFRS Standards but with reduced disclosures. They argued that using the *IFRS for SMEs* Standard is not attractive to some of these subsidiaries because they need to report to their parent, for consolidation purposes, numbers that apply the recognition and measurement requirements of IFRS Standards. For their own financial statements, they would prefer to use those recognition and measurement requirements, but with less onerous disclosure requirements. They argued that this approach would reduce costs, without removing information needed by the users of the subsidiaries' financial statements.

6. The research will involve:
 - (a) investigating how much tailoring of the disclosure requirements of the *IFRS for SMEs* Standard would be needed to ensure they support the recognition and measurement requirements of IFRS Standards. Among other things, this investigation will consider:
 - (i) whether it is possible to combine the two existing regimes (IFRS Standards and the *IFRS for SMEs* Standard); and
 - (ii) when and how the resulting requirements would be updated when there is an update to the recognition and measurement requirements in IFRS Standards or to the disclosure requirements in the *IFRS for SMEs* Standard;
 - (b) outreach to establish whether preparers would have sufficient appetite for the package to make it worthwhile to pursue developing it; and
 - (c) outreach to establish the extent to which national standard-setters:
 - (i) have developed their own standard(s) permitting subsidiaries/entities to provide reduced disclosures;

- (ii) would permit the application in their jurisdictions of a Standard permitting subsidiaries to apply the recognition and measurement requirements in IFRS Standards with the disclosure requirements in the *IFRS for SMEs* Standard.

Current developments in Australia

7. In Australia, Tier 2 entities¹ apply the full recognition and measurement requirements from IFRS Standards but with reduced disclosures. The Australian Accounting Standards Board (AASB) is currently working on a project to replace the Tier 2 disclosure requirements for for-profit private sector entities that do not have public accountability with some that are less onerous.
8. The AASB is currently considering whether it would be feasible to adapt the disclosure requirements in the *IFRS for SMEs* Standard for application by for-profit private sector entities that are not publicly accountable but applying recognition and measurement of IFRS Standards.
9. Staff at the AASB have started analysing the recognition and measurement differences between IFRS Standards and the *IFRS for SMEs* Standard and how this may be reflected in the new disclosure requirements. At its February 2019 Board meeting, the AASB decided to progress developing a separate IFRS for SMEs-based disclosure Standard. This would be a new Tier 2 disclosure Standard available to for-profit private sector entities that are not publicly accountable, while retaining the full recognition and measurement requirements of Australian Accounting Standards. The final staff analysis along with a draft Exposure Draft will be considered by the AASB at its next meeting in May 2019.

¹ Tier 2 entities are: (a) for-profit private sector entities that do not have public accountability; (b) all not-for-profit private sector entities; and (c) public sector entities other than the Australian Government and State, Territory and Local Governments.

Planned activities

10. Following the March 2019 Board meeting, the staff will update the IASB website to indicate that this project is now active.
11. The staff intend to discuss this project at the next meeting of the Global Preparers Forum, seeking participants' feedback on whether they would permit subsidiaries in their groups to apply such a Standard if the Board were to issue one (and its application were permitted in the jurisdictions of the subsidiaries).
12. The staff also intend to discuss this project at the next meetings of The International Forum of Accounting Standard Setters and the Accounting Standards Advisory Forum. Participants' feedback will be requested on the extent to which national standard-setters:
 - (a) have developed their own standard permitting subsidiaries/entities to provide reduced disclosures; and
 - (b) would permit the application in their jurisdictions of a Standard permitting subsidiaries to apply the recognition and measurement requirements in IFRS Standards with the disclosure requirements in the *IFRS for SMEs* Standard.
13. The staff will undertake an initial review of the disclosure requirements in the *IFRS for SMEs* Standard to assess the extent of any tailoring likely to be needed.
14. The staff will also monitor the work of the AASB.

Question for the Board

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Do you have any comments or questions?