STAFF PAPER

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IASB® Meeting

Project	Disclosure Initiative—Subsidiaries that are SMEs		
Paper topic	Exceptions to the process for adapting disclosure requirements		

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1. Introduction

1.1 As noted in paragraph 2(b) of Agenda Paper 31 *Cover paper*, the International Accounting Standards Board (Board) tentatively decided that the disclosure requirements of the *IFRS for SMEs* Standard will be the starting point for the disclosure requirements in a reduced disclosure IFRS Standard for subsidiaries that are SMEs, and the disclosure requirements of the *IFRS for SMEs* Standard will be adapted if recognition or measurement differences between the *IFRS for SMEs* Standard and IFRS Standards necessitate it. Adaptations will be made by considering users' needs—achieved by applying the principles in paragraph BC157 of the *IFRS for SMEs* Standard.

1.2 This paper asks the Board to approve exceptions to the process for adapting the disclosure requirements of the *IFRS for SMEs* Standard for matters identified by the staff when preparing the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* Standard or during the Board members' review of that analysis.

1.3 The matters dealt with in this paper are:

Paragraphs	IFRS Standard	Suggested exception	Recommendation
Disclosure improvements in IFRS Standards not included in the *IFRS for SMEs* Standard			
2.5–2.17	IFRS 12 *Disclosure of Interests in Other Entities*	Do not require subsidiaries that are SMEs that are investment entities to give several disclosures about unconsolidated subsidiaries and unconsolidated structured entities.	Adopt suggested exception. Include only an adapted version of paragraph 9.23(d) of the *IFRS for SMEs* Standard in the reduced disclosure IFRS Standard and exclude paragraphs 19D(b) and 19E–19G of IFRS 12.
2.18–2.28	IAS 7 *Statement of Cash Flows*	Add a disclosure requirement about liabilities arising from financing activities for subsidiaries that. are SMEs	Adopt suggested exception by including a simplified disclosure requirement for subsidiaries that are SMEs.
2.29–2.33 and Appendix B	IFRS 7 *Financial Instruments: Disclosures*	Add disclosure requirements for subsidiaries that are SMEs.	Adopt suggested exception.
	IFRS 13 *Fair Value Measurement*	Add disclosure requirements for subsidiaries that are SMEs.	Adopt suggested exception.
	IFRS 15 *Revenue from Contracts with Customers*	Add disclosure requirements for subsidiaries that are SMEs.	Adopt suggested exception by adding simplified versions of the disclosure requirements.
	IFRS 16 *Leases*	Add disclosure requirements for subsidiaries that are SMEs.	Adopt suggested exception.

Paragraphs	IFRS Standard	Suggested exception	Recommendation
Disclosure requirements in the *IFRS for SMEs* Standard that are additional to those in IFRS Standards			
3.1–3.5	Various	Do not require *IFRS for SMEs* Standard disclosure requirements for subsidiaries that are SMEs.	Adopt suggested exception for requirements that have subsequently been removed from IFRS Standards.
Adapt disclosure requirements in the *IFRS for SMEs* Standard where there have not been improvements in IFRS Standards			
4.1–4.6	IFRS 6 *Exploration for and Evaluation of Mineral Resources*	Include a disclosure requirement for subsidiaries that are SMEs that is omitted from *IFRS for SMEs* Standard.	Adopt suggested exception. Supported by paragraph BC157(e) of the *IFRS for SMEs* Standard.
4.7–4.12	IFRS 7 Maturity analyses	Add a disclosure requirement for subsidiaries that are SMEs requiring a maturity analysis for all financial labilities.	Do not adopt suggested exception. For subsidiaries that are SMEs, limit the disclosure requirement to paragraphs 20.13(b) and 11.42 of the *IFRS for SMEs* Standard.
4.13–4.15	IAS 19 *Employee Benefits*	Adapt a disclosure requirement of the *IFRS for SMEs* Standard for subsidiaries that are SMEs.	Adopt suggested exception.
Disclosure objectives			
5.1–5.7	Various	Exclude all disclosure objectives for subsidiaries that are SMEs even if paragraph BC157 of the *IFRS for SMEs* Standard would require inclusion.	Adopt suggested exception.

2. Disclosure improvements introduced in IFRS Standards not included in the *IFRS for SMEs* Standard

Introduction

2.1 The *IFRS for SMEs* Standard is not aligned with several disclosure improvements made to IFRS Standards. For example, when the Board issued IFRS 16 *Leases* the Board enhanced the disclosure requirements for lessors, even though the accounting requirements for lessors were substantially unchanged. The Board also enhanced the disclosure requirements for lessees. As part of its Second Comprehensive Review of the *IFRS for SMEs* Standard the Board is asking for views on aligning the Standard with IFRS 16.

2.2 As noted in paragraph 1.1, in the Subsidiaries that are SMEs project the Board has tentatively decided:

(a) to adapt the disclosure requirements of the *IFRS for SMEs* Standard only for recognition and measurement differences between the *IFRS for SMEs* Standard and IFRS Standards; and

(b) not to adapt the disclosure requirements of the *IFRS for SMEs* Standard for disclosure improvements introduced in new and amended IFRS Standards with which the *IFRS for SMEs* Standard is not currently aligned if there is no recognition and measurement difference between the *IFRS for SMEs* Standard and IFRS Standards.

The staff have undertaken the analysis and prepared suggested disclosure requirements on this basis.

2.3 In undertaking the analysis, the staff identified two sets of disclosure requirements related to disclosure improvements where the staff recommend departing from the agreed approach to adapting disclosure requirements. These are disclosure requirements from IFRS 12 *Disclosure of Interests in Other Entities* for investment entities about unconsolidated subsidiaries and unconsolidated structured entities; and disclosure requirements from IAS 7 *Statement of Cash Flows* about changes in liabilities arising from financing activities.

2.4 In addition, Board members identified some disclosure requirements during their review where they recommended the staff depart from the agreed approach. These are discussed below.

Investment entities— IFRS 12 **Disclosure of Interests in Other Entities**

Background

2.5 There is a recognition and measurement difference in how investment entities are accounted for applying IFRS Standards and applying the *IFRS for SMEs* Standard. A subsidiary of an investment entity that is itself an investment entity is accounted for at fair value through profit or loss applying IFRS Standards (IFRS 10 *Consolidated Financial Statements* paragraphs 31 and 32) whereas applying the *IFRS for SMEs* Standard it would be consolidated because the *IFRS for SMEs* Standard does not contain any requirements specifically for investment entities.

2.6 Consequently, applying the agreed approach the staff applied paragraph BC157 of the *IFRS for SMEs* Standard to determine whether to require a subsidiary that is an SME to apply the IFRS 12 disclosure requirements for investment entities.

2.7 Although adding paragraphs 19D(b) and 19E–19G of IFRS 12 to the reduced disclosure IFRS Standard would be supported by paragraph BC157, the staff propose that the reduced disclosure IFRS Standard does *not* require subsidiaries that are SMEs to provide the disclosures required by paragraphs 19D(b) and 19E–19G of IFRS 12 as requiring the disclosure would lead to investment entities disclosing information that non-investment entities applying the reduced disclosure IFRS Standard would not be required to disclose.

IFRS 12 disclosure requirements

2.8 IFRS 12 requires disclosures about an entity's interests in:

(a) subsidiaries (including subsidiaries of investment entities that are accounted for at fair value through profit or loss);

(b) joint arrangements (ie joint operations or joint ventures);

(c) associates; and

(d) unconsolidated structured entities.

2.9 The IFRS 12 disclosure requirements that apply to an investment entity are in paragraphs 9A, 9B and 19A–19G. This discussion is limited to paragraphs 19D–19G of IFRS 12.

2.10 Paragraphs 19D–19G of IFRS 12 are reproduced in Appendix A to this paper. In summary the paragraphs require disclosure of:

(a) significant restrictions on the ability of an unconsolidated subsidiary to transfer funds to the investment entity (para 19D(a));

(b) commitments or intentions to provide support to an unconsolidated subsidiary (para 19D(b));

(c) contractual arrangements that could require support to an unconsolidated, controlled, structured entity (para19F);

(d) support provided to an unconsolidated subsidiary when there was no contractual obligation to do so (para 19E); and

(e) explanation of why support was provided to an unconsolidated structured entity without a contractual obligation to do so if that support resulted in the investment entity controlling the structured entity (para 19E).

2.11 The disclosures required by paragraphs 19D–19G of IFRS 12 could be included in either consolidated financial statements or separate financial statements depending on whether an investment entity has any subsidiaries that it is required to consolidate.

Analysis

2.12 An investment entity applying the *IFRS for SMEs* Standard consolidates its subsidiaries that are investment entities. Consequently, when considering which, if any, disclosures should be required to be given by a subsidiary that is an SME that is an investment entity, the staff compared the disclosure requirements in Section 9 of the *IFRS for SMEs* Standard for consolidated financial statements with paragraphs 19D–19G of IFRS 12 and applied paragraph BC157 of the *IFRS for SMEs* Standard to any differences between the disclosure requirements to determine whether any of the additional disclosure requirements in IFRS 12 should be required for subsidiaries that are SMEs.

Analysis—paragraph 19D(a) of IFRS 12

2.13 Paragraph 9.23(d) of the *IFRS for SMEs* Standard, which requires disclosure of significant restrictions on the ability of subsidiaries to transfer funds to the parent, is similar to that required by paragraph 19D(a) of IFRS 12. Therefore, the staff recommend including an adapted version of paragraph 9.23(d) in the reduced disclosure IFRS Standard to be applied by subsidiaries that are SMEs that are investment entities.

Analysis—19D(b) and 19E–19G of IFRS 12

2.14 The *IFRS for SMEs* Standard does not require disclosure similar to that required by paragraphs 19D(b) and 19E–19G of IFRS 12 in either consolidated financial statements or separate financial statements. Applying the approach agreed by the Board for adapting the disclosure requirements of the *IFRS for SMEs* Standard when there is a recognition and measurement difference, the staff applied the principles in paragraph BC157 of the *IFRS for SMEs* Standard to determine whether any of the disclosure requirements for investment entities in paragraphs 19D(b) and 19E–19G of IFRS 12 should be included in the reduced disclosure IFRS Standard (that is, to be applied by a subsidiary that is an SME that is an investment entity).

2.15 Although the disclosure requirements would be supported by paragraph BC157(a) and (b) of the *IFRS for SMEs* Standard, the staff do not recommend including paragraphs 19D(b) and 19E–19G of IFRS 12 in the reduced disclosure IFRS Standard to be applied by investment entities for the following reasons:

(a) Paragraphs 14–17 of IFRS 12 require disclosures similar to paragraphs 19D(b) and 19E–19G of IFRS 12 about an entity's consolidated structured entities. Likewise, paragraphs 30, 31 and B26(a) of IFRS 12 require similar disclosures about an entity's unconsolidated structured entities. However, the staff are not recommending the disclosure requirements in paragraphs 14–17, 30, 31 and B26(a) of IFRS 12 are included in the reduced disclosure IFRS Standard because they do not stem from a recognition or measurement difference. For consistency, the staff propose omitting the disclosure requirements of paragraphs 19D(b) and 19E–19G of IFRS 12 so that investment entities are not required to make disclosures other entities are not required to make.

(b) Paragraph B25 of the Request for Information on the Second Comprehensive Review of *the IFRS for SMEs* Standard states that:

> "… Based on the definition of an 'investment entity' in IFRS 10 the Board considered that few entities eligible to apply the *IFRS for SMEs* Standard will also be investment entities. …".

The disclosures required by paragraphs 19D(b) and 19E of IFRS 12 only apply to investment entities that have unconsolidated subsidiaries and the disclosures required by paragraphs 19F and 19G of IFRS 12 only apply to investment entities that have unconsolidated structured entities, thereby narrowing further the pool of subsidiaries that would be required to apply such disclosure requirements should they be included in the reduced disclosure IFRS Standard.

Recommendation

2.16 The staff recommend including an adapted version of paragraph 9.23(d) of the *IFRS for SMEs* Standard in the reduced disclosure IFRS Standard to be applied by subsidiaries that are SMEs that are investment entities which is similar to paragraph 19D(a) of IFRS 12. This is *not* an exception to the agreed approach so the Board is not asked to vote on this.

2.17 The staff do not recommend that the reduced disclosure IFRS Standard requires subsidiaries that are SMEs that are investment entities to provide the disclosures required by paragraphs 19D(b) and 19E–19G of IFRS 12.

Question for the Board

Question 1

Does the Board agree with the staff recommendation that if it proposes a reduced disclosure IFRS Standard, the Standard should *not* include disclosures required by paragraphs 19D(b) and 19E–19G of IFRS 12?

IAS 7 Statement of Cash Flows

Background

2.18 In January 2016, the Board amended IAS 7 *Statement of Cash Flows* (2016 amendment) by adding the following disclosure objective (paragraph 44A of IAS 7):

> An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment was in response to requests from users to improve disclosures about an entity's debt, including changes in debt during the period.

2.19 The objective is explained in paragraphs 44B–44E of IAS 7.

2.20 The *IFRS for SMEs* Standard is not aligned with the 2016 amendment; the amendment was outside the scope of the First Comprehensive Review of the *IFRS for SMEs* Standard. The Board is seeking views, as part of the Second Comprehensive Review, on aligning the *IFRS for SMEs* Standard with the 2016 amendment.

2.21 The staff of the Second Comprehensive Review of the *IFRS for SMEs* Standard are currently undertaking outreach with users of SME financial statements. The initial findings from this outreach is that users support aligning the *IFRS for SMEs* Standard with the 2016 amendment. Taking into consideration feedback from users of SME financial statements the staff are proposing the Board includes a simplified version of paragraphs 44A–44E in its proposals for a reduced disclosure IFRS Standard.

Analysis

2.22 In the exposure draft that led to the 2016 amendment the Board proposed an entity provide a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.

2.23 In response to the exposure draft financial institutions said a reconciliation would not provide relevant information to users of their financial statements because:

(a) the proposed reconciliation would not capture all sources of finance, namely customer deposits classified as operating cash flows; and

(b) regulatory disclosure requirements already provide disclosures about the financing structure of the entity.

2.24 The Board agreed with the feedback from financial institutions and amended its proposals. The Board decided not to require a reconciliation but noted a reconciliation is one way to fulfil the disclosure requirements.

2.25 The scope of the reduced disclosure IFRS Standard will exclude subsidiaries that have public accountability and so will exclude subsidiaries that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (which would exclude most banks and credit unions). Therefore, the feedback the Board received from financial institutions is *not* relevant when the Board is considering the disclosure requirements for subsidiaries that are SMEs.

2.26 In September 2019, the IFRS Interpretations Committee responded to a request from users of financial statements that the disclosure requirements in paragraphs 44B–44E were not adequate to meet the disclosure objective of paragraph 44A of IAS 7. The Committee observed that an entity applies judgement in determining the extent to which it disaggregates and explains changes in liabilities arising from financing activities to meet the disclosure objective.

Recommendation

2.27 The staff have taken into consideration (i) feedback from financial institutions on the exposure draft that led to the 2016 amendment; and (ii) that applying the 2016 amendment requires judgement. Based on this the staff believe that the disclosure requirements in paragraphs 44A–44E could be simplified by requiring a subsidiary to provide a reconciliation. This would avoid the subsidiary needing to make judgement on the level of disaggregation required.

2.28 The staff recommend that the Board simplifies the disclosure requirement and proposes subsidiaries that are SMEs:

> Disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including:
>
> (a) changes from financing cash flows;
>
> (b) changes arising from obtaining or losing control of subsidiaries or other businesses;
>
> (c) the effect of changes in foreign exchange rates;
>
> (d) changes in fair values; and
>
> (e) other changes.
>
> Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

Question for the Board

Question 2
Does the Board agree with the staff recommendation that if it proposes a reduced disclosure IFRS Standard, subsidiaries that are SMEs should provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

Additional disclosure requirements recommended by Board members

2.29 During the Board member review of the analysis of adaptions to the disclosure requirements of the *IFRS for SMEs* Standard several Board members recommended additional disclosure requirements be included in the reduced disclosure IFRS Standard. In part, these recommendations relate to disclosure improvements introduced in new and amended IFRS Standards with which the *IFRS for SMEs* Standard is not currently aligned.

2.30 The recommended additional disclosure requirements which relate to disclosure improvements are listed in Appendix B to this paper. The disclosure requirements in Appendix B are:

(a) IFRS 7 *Financial Instruments: Disclosures*, paragraphs 17, 22A and 24A;

(b) IFRS 13 *Fair Value Measurement*, paragraphs 93(i) and 93(ii);

(c) IFRS 15 *Revenue from Contracts with Customers*, paragraphs 118–120; and

(d) IFRS 16 *Leases*, paragraphs 53(b) and 47(b).

2.31 Applying the agreed approach, the reduced disclosure IFRS Standard would not include these disclosure requirements, that is, subsidiaries that are SMEs would not be required to provide these disclosures.

2.32 As these disclosure requirements would be exceptions to the agreed approach the staff have assessed if the recommended additional disclosure requirements would be required applying principles in paragraph BC157 of the *IFRS for SMEs* Standard. Appendix B sets out the analysis and staff recommendation applying paragraph BC157.

2.33 The staff recommend the disclosure requirements listed in the right-hand column of Appendix B are included in the reduced disclosure IFRS Standard.

Question for the Board

Question 3
Does the Board agree with the staff recommendation to include in the reduced disclosure IFRS Standard the disclosure requirements recommended in Appendix B of this paper?

3. Disclosure requirements in the *IFRS for SMEs* Standard that are additional to those in IFRS Standards

3.1 The *IFRS for SMEs* Standard contains several disclosure requirements for which there is not an equivalent disclosure requirement in IFRS Standards. Consequently, a subsidiary that applies the reduced disclosure IFRS Standard would provide disclosures it is not required to provide if it applied IFRS Standards. It is also likely that a subsidiary would not need to report the information required by these disclosure requirements to its parent for consolidation purposes, given there is no equivalent disclosure requirement in IFRS Standards.

3.2 Appendix C to this paper lists the disclosure requirements of the *IFRS for SMEs* Standard that are additional to those of IFRS Standards for which there is no recognition and measurement difference.

3.3 The first four disclosure requirements were included in IFRS Standards when the *IFRS for SMEs* Standard was developed. However, the requirements have subsequently been removed or varied in IFRS Standards but have not been removed or varied in the *IFRS for SMEs* Standard. The staff recommend removing or varying these for subsidiaries that are SMEs to align with the change in IFRS Standards.

3.4 The staff believe the last three disclosure requirements have no direct equivalent in IFRS Standards and so have not been removed or varied in IFRS Standards. The staff recommend these remain applicable for subsidiaries that are SMEs.

3.5 The staff recommendations are set out in the right-hand column in Appendix C. The staff recommend that:

(a) subsidiaries that are SMEs are not required to apply the disclosure requirements from paragraphs 28.41(g) and 15.19(d) of the *IFRS for SMEs* Standard; paragraphs 28.41(g) and 15.19(d) are based on disclosure requirements that have been replaced in IFRS Standards (items 1 and 2 in Appendix C);

(b) paragraph 20.14 of the *IFRS for SMEs* Standard is varied before being included in the reduced disclosure IFRS Standard so that it requires subsidiaries that are SMEs to disclose only selected information about their right-of-use assets (rather than disclosing everything they are required to disclose about property, plant and equipment and intangible assets); paragraph 20.14 is based on a disclosure requirement that has been replaced in IFRS Standards (item 3 in Appendix C);

(c) paragraphs 17A and 18A of IAS 24 *Related Party Disclosures* are included to the reduced disclosure IFRS Standard so that subsidiaries that are SMEs benefit from the relief (item 4 in Appendix C);

(d) subsidiaries that are SMEs are required to apply the disclosure requirements from paragraphs 28.42 and 28.43 of the *IFRS for SMEs* Standard; paragraphs 28.42 and 28.43 have not been varied in IFRS Standards (items 5 and 6 in Appendix C); and

(e) the adapted version of paragraph 3.25 of the *IFRS for SMEs* Standard applies to subsidiaries that are SMEs for segments; this paragraph provides useful information about the basis of preparation (item 7 in Appendix C).

Question for the Board

Question 4
Does the Board agree with the staff recommendation in paragraph 3.5?

4. Adapt disclosure requirements in the *IFRS for SMEs* Standard where there have not been improvements in IFRS Standards

IFRS 6 Exploration for and Evaluation of Mineral Resources

Background

4.1 Paragraph 15 of IFRS 6 requires an entity to classify exploration and evaluation assets as tangible or intangible. This requirement is a presentation requirement. It therefore follows that the disclosures for tangible assets or intangible assets would be required to be made regardless of whether the entity applies the reduced disclosure IFRS Standard.

4.2 Paragraph 25 of IFRS 6 requires exploration and evaluation assets to be disclosed as a separate class of assets. The *IFRS for SMEs* Standard does not contain an equivalent disclosure requirement.

Analysis

4.3 The difference in disclosure requirement is not due to a recognition or measurement difference. Consequently, applying the approach agreed to adapting the *IFRS for SMEs*

Standard disclosure requirements, paragraph 25 of IFRS 6 would not be added to the reduced disclosure IFRS Standard.

4.4 Paragraphs BC224–BC226 of the *IFRS for SMEs* Standard discuss the Board's conclusions regarding amendments it made to the *IFRS for SMEs* Standard in 2015 on the topic of exploration for and evaluation of mineral resources. Paragraph BC226 explains that:

> However, the IASB decided not to make any changes to the presentation and disclosure requirements. It noted that it is not possible for the *IFRS for SMEs* to include industry-specific disclosures for different industries and remain user-friendly for simple SMEs. Nevertheless, it noted that when additional disclosures are important to an understanding of specific industry activities, paragraph 8.2(c) of the IFRS for SMEs would apply.

4.5 The reduced disclosure IFRS Standard will be targeting a subset of SMEs, those that are subsidiaries and that report to their parent for consolidation purposes applying IFRS Standards. The objective of this project is different from the Board's objectives for the *IFRS for SMEs* Standard.

Recommendation

4.6 During the Board member review of the analysis of adaptions, the staff received a comment that requiring the separate classification as required by IFRS 6 paragraph 25 would be useful for users. Disclosure is supported by the principle in paragraph BC157(e). The staff recommend that subsidiaries that are SMEs should be required to make the disclosure required by paragraph 25 of IFRS 6.

Question for the Board

Question 5
Does the Board agree with the staff recommendation that, if it proposes a reduced disclosure IFRS Standard, subsidiaries that are SMEs should be required to make the disclosure required by paragraph 25 of IFRS 6?

Maturity analyses

Background

4.7 The *IFRS for SMEs* Standard requires a lessee to disclose a maturity analysis of the total of future minimum lease payments of finance leases (paragraph 20.13(b) of the *IFRS for SMEs* Standard). Applying the agreed approach to adapting disclosure requirements, a subsidiary that is an SME will be required to apply this disclosure requirement to its leases other than its short-term leases and leases for which the underlying asset is of low value accounted for applying paragraph 6 of IFRS 16 *Leases*.

4.8 The *IFRS for SMEs* Standard does not require a maturity analysis for other financial liabilities. However, paragraph 11.42 of the *IFRS for SMEs* Standard states:

> An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).

Applying the agreed approach to adapting disclosure requirements, subsidiaries that are SMEs will be required to apply paragraph 11.42 of the *IFRS for SMEs* Standard.

4.9 The Australian Accounting Standards Board (AASB) has issued a reduced disclosure Standard based on the *IFRS for SMEs* Standard's disclosure requirements and took the same approach as that outlined above (include paragraph 20.13(b) and paragraph 11.42 of the *IFRS for SMEs* Standard) in its exposure draft. The AASB reported that in response to the exposure draft stakeholders said this results in more detailed information being required for lease liabilities than for other borrowings, as paragraph 11.42 of the *IFRS for SMEs* Standard only has a general requirement to disclose terms and conditions 'such as … maturity, repayment schedule …'. The AASB reported that while there was no clear preference for either of these approaches, many stakeholders noted that the requirements should be consistent for all financial liabilities.

4.10 After considering the feedback received, the AASB decided to retain the disclosure requirements unchanged (ie paragraph 20.13(b) and paragraph 11.42 of the *IFRS for SMEs* Standard), but noted in the Basis for Conclusions for its Standard that paragraph 11.42 of the *IFRS for SMEs* Standard makes a specific reference to the instruments' maturity and repayment schedule and that the AASB therefore expects entities to provide this information in some form.

4.11 The AASB wrote to the Board encouraging the Board to align the disclosure requirements for all financial liabilities when reconsidering both:

(a) the *IFRS for SMEs* Standard as part of the Second Comprehensive Review of the *IFRS for SMEs* Standard; and

(b) the Disclosure Initiative—Subsidiaries that are SMEs project.

Recommendation

4.12 The staff recommend that:

(a) subsidiaries that are SMEs apply paragraphs 20.13(b) and 11.42 of the *IFRS for SMEs* Standard; and

(b) the Board considers whether to align the disclosure requirements for all financial liabilities as part of the Second Comprehensive Review of the *IFRS for SMEs* Standard, rather than as part of the Subsidiaries that are SMEs project, and amend the reduced disclosure IFRS Standard if the *IFRS for SMEs* Standard is amended.

Question for the Board

Question 6

Does the Board agree with the staff recommendation that:

(a) should the Board decided to propose a reduced disclosure IFRS Standard subsidiaries that are SMEs should be required to disclose the information required by paragraphs 20.13(b) and 11.42 of the *IFRS for SMEs* Standard; and

(b) the Board considers whether to align the disclosure requirements for all financial liabilities as part of the Second Comprehensive Review of the *IFRS for SMEs* Standard, rather than as part of the Subsidiaries that are SMEs project?

IAS 19 **Employee Benefits**

Background

4.13 Paragraph 28.41(e) of the *IFRS for SMEs* Standard requires disclosure of ‘a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes’. The equivalent requirement in IAS 19 is in paragraphs 140 and 141 of IAS 19, which specify more reconciling items to be disclosed.

4.14 Applying the agreed approach to adapting disclosure requirements the staff had proposed requiring subsidiaries that are SMEs to apply paragraph 28.41(e). During the Board member review the staff received a recommendation that more reconciling items should be specified for subsidiaries that are SMEs applying the reduced disclosure IFRS Standard. This is supported by paragraph BC157(e).

Recommendation

4.15 The staff recommend that the following expanded version of paragraph 28.41(e) be included in the reduced disclosure IFRS Standard:

> a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately:
>
> (i) benefits paid;
>
> (ii) current service cost;
>
> (iii) interest expense;
>
> (iv) remeasurements of the net defined benefit liability;
>
> (v) past service costs; and
>
> (vi) all other changes.

Question for the Board

Question 7
Does the Board agree with the staff recommendation in paragraph 4.15?

5. Disclosure Objectives

Background

5.1 Several IFRS Standards set out a disclosure objective before listing disclosure requirements designed to satisfy the objective. For example, paragraph 110 of IFRS 15 *Revenue from Contracts with Customers* states:

> The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:
>
> (a) its contracts with customers (see paragraphs 113–122);
>
> (b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123–126); and
>
> (c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).

5.2 Paragraph 111 of IFRS 15 states:

> An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements.
> …

5.3 It is generally accepted that:

(a) Disclosure objectives require a preparer to apply judgement to determine what information would satisfy the objective, and how best to communicate that information. This will generally result in better disclosure outcomes, particularly for entities with material entity specific items in the financial statements. However, disclosure objectives will also require a preparer to expend resources achieving these outcomes.

(b) SMEs typically have less resources than publicly accountable entities. Consequently, requiring SMEs to apply disclosure objectives is less likely to pass the cost-benefit test than for publicly accountable entities.

(c) A list of disclosure requirements would be simpler for SMEs to apply than disclosure objectives.

5.4 The staff are concerned that, if disclosure objectives from other IFRS Standards are included in the reduced disclosure IFRS Standard, subsidiaries might be required to make the same disclosures as if it did not apply the reduced disclosure IFRS Standard, which would run counter to the project objective.

5.5 In developing the analysis of adaptations to the disclosure requirements of the *IFRS for SMEs* Standard the staff have proposed not requiring subsidiaries that are SMEs to apply the disclosure objectives. When a Standard sets out an objective and then specifies disclosure requirements to achieve that objective, the staff considered only each of the individual disclosure requirements and assessed them against paragraph BC157.

5.6 The Board took this approach for disclosure requirements about share-based payments when developing the *IFRS for SMEs* Standard. IFRS 2 *Share-based Payment* sets out a disclosure objective in paragraph 44 but this has not been included in the *IFRS for SMEs* Standard.

Recommendation

5.7 The staff are recommending that the Board does not include disclosure objectives in the reduced disclosure IFRS Standard.

Question for the Board

Question 8
Does the Board agree with the staff recommendation not to include disclosure objectives in the reduced disclosure IFRS Standard?

Appendix A—Paragraphs 19D–19G of IFRS 12

Interests in unconsolidated structured entities (investment entities)

19A …

19D An investment entity shall disclose:

(a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and

(b) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.

19E If, during the reporting period, an investment entity or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated subsidiary (eg purchasing assets of, or instruments issued by, the subsidiary or assisting the subsidiary in obtaining financial support), the entity shall disclose:

(a) the type and amount of support provided to each unconsolidated subsidiary; and

(b) the reasons for providing the support.

19F An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).

19G If during the reporting period an investment entity or any of its unconsolidated subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.

Appendix B—Disclosure improvements introduced in IFRS Standards not included in the *IFRS for SMEs* Standard

Board members have recommended the following disclosure requirements related to disclosure requirements introduced in new and amended IFRS Standards with which the *IFRS for SMEs* Standard is not currently aligned:

Disclosure requirement		Recommendation
IFRS 7 Financial Instruments: Disclosures		
17	If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of IAS 32) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.	Add as supported by paragraph BC157(e).
22A	An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example): (a) how each risk arises. (b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why. (c) the extent of risk exposures that the entity manages.	Add as supported by paragraph BC157(c).
24A	An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):	Add this paragraph. Supported by paragraph BC157(e).

<table>
<tr><th colspan="3">Disclosure requirement</th><th>Recommendation</th></tr>
<tr><td></td><td>(a)</td><td>the carrying amount of the hedging instruments (financial assets separately from financial liabilities);</td><td rowspan="4"></td></tr>
<tr><td></td><td>(b)</td><td>the line item in the statement of financial position that includes the hedging instrument;</td></tr>
<tr><td></td><td>(c)</td><td>the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and</td></tr>
<tr><td></td><td>(d)</td><td>the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.</td></tr>
<tr><td colspan="4">IFRS 13 Fair Value Measurement</td></tr>
<tr><td>93(e)(i)</td><td colspan="2">Total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.</td><td rowspan="2">The IFRS 13 requirements in paragraphs 93(e)(i) and (ii) are part of a disclosure requirement for a reconciliation about recurring fair value measurements categorised within the level 3 hierarchy.

The recommendation is to require these two amounts to be disclosed for recurring fair value measurements categorised within the level 3 hierarchy.

These are supported by paragraph BC157(e).</td></tr>
<tr><td>93(e)(ii)</td><td colspan="2">Total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.</td></tr>
</table>

Disclosure requirement		Recommendation
IFRS 15 *Revenue from Contracts with Customers*		
118	An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity’s balances of contract assets and contract liabilities include any of the following: (a) changes due to business combinations; (b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification; (c) impairment of a contract asset; (d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable); and (e) a change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability).	The recommendation is to add the first sentence of paragraph 118, ie, ‘An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.’ This is supported by paragraph BC157(a). Subparagraphs (a)–(e) of paragraph 118 are examples of what might trigger disclosure so suggest not adding.
119	An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following: (a) when the entity typically satisfies its performance obligations (for example, upon	The staff recommend adding subparagraphs (b), (d) & (e) of paragraph 119 as these

Disclosure requirement			Recommendation
		shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;	are supported by paragraph BC157(a). The staff do not recommend adding subparagraphs (a) and (c) of paragraph 119 because these are not focusing on future cash flows.
	(b)	the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58);	
	(c)	the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);	
	(d)	obligations for returns, refunds and other similar obligations; and	
	(e)	types of warranties and related obligations.	
120	An entity shall disclose the following information about its remaining performance obligations:		The recommendation is to include a simplified version of paragraph 120: 'provide a quantitative or qualitative explanation of the significance of unsatisfied performance obligations and when they are expected to be satisfied'.
	(a)	the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and	
	(b)	an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways:	

Disclosure requirement		Recommendation
	(i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or (ii) by using qualitative information.	This is supported by paragraph BC157(a).
IFRS 16 *Leases*		
53(b)	A lessee shall disclose the following amounts for the reporting period: (b) interest expense on lease liabilities;	Paragraph BC45 of the *IFRS for SMEs* Standard highlights the importance of interest coverage to users of financial statements of SMEs. Disclosing interest expense and borrowings on the balance sheet for leases that have been capitalised should provide useful information to users and is supported by paragraph BC157(b).
47(b)	A lessee shall either present in the statement of financial position, or disclose in the notes: (b) lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.	

Appendix C—Disclosure requirements in the *IFRS for SMEs* Standard that are additional to those in IFRS Standards for which there is no recognition and measurement difference

	Disclosure requirement	Background and Recommendation
1.	(g) the total cost relating to defined benefit plans for the period, disclosing separately the amounts: (i) recognised in profit or loss as an expense; and (ii) included in the cost of an asset. (Paragraph 28.41(g) of the *IFRS for SMEs* Standard)	The *IFRS for SMEs* Standard is based on an earlier version of IAS 19. That earlier version required the amount recognised in profit or loss as an expense to be disclosed. The amount capitalised appears to be derivable from this and one other disclosure requirement. IAS 19 now requires an entity to disclose a reconciliation of plan assets, of the present value of the defined benefit obligation, and of the effect on the asset ceiling. IAS 19 specifies various reconciling items that should be disclosed, for example, current service cost. It does not require the amount recognised in profit and loss account and the amount included in the cost of an asset to be disclosed. **Recommendation:** do not require subsidiaries that are SMEs to apply this disclosure requirement. The staff recommendation in paragraph 4.15 of this paper requires a subsidiary to disclose current service cost, interest expense and past service cost.

	Disclosure requirement	Background and Recommendation
2.	An entity shall disclose the following: … (d) the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves. (Paragraph 15.19(d) of the *IFRS for SMEs* Standard)	The last part of paragraph 15.19(d) of the *IFRS for SMEs* Standard requires the venturer's share of the capital commitments of the joint ventures to be disclosed. This was required to be disclosed by IAS 31 paragraph 55(b), but is additional to what is now required by paragraphs 23(a) and B18 of IFRS 12. **Recommendation:** do not require subsidiaries that are SMEs to apply this disclosure requirement.
3.	In addition, the requirements for disclosure about assets in accordance with Sections 17, 18, 27 and 34 apply to lessees for assets leased under finance leases. (Paragraph 20.14 of the *IFRS for SMEs* Standard)	This corresponded to paragraph 32 of IAS 17 *Leases.* Biological assets held by a lessee are outside the scope of IFRS 16 so the reference to Section 34 would be removed from the reduced disclosure IFRS Standard. IAS 36 applies to right-of-use assets so the reference to Section 27 can be updated in the reduced disclosure IFRS Standard. When IFRS 16 replaced IAS 17, it introduced improved disclosure requirements. For lessees it requires disclosure of depreciation charge, additions and carrying amount and, if the right-of-use assets have been revalued, additional information. **Recommendation:** the references to Sections 17 *Property, Plant and Equipment*

	Disclosure requirement	Background and Recommendation
		and 18 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill* should be replaced with the specific requirements from IFRS 16.
4.	An entity shall disclose key management personnel compensation in total. (Paragraph 33.7 of the *IFRS for SMEs* Standard) Both IAS 24 & Section 33 define 'compensation' as employee benefits in exchange for services rendered to the entity.	This requires less disclosure than its equivalent in IAS 24. Paragraph 17 of IAS 24 requires the total to be disclosed and also the amount for each of the following categories: (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; and (e) share-based payment. However, paragraphs 17A and 18A introduced a relief into IAS 24 and were added to IAS 24 in December 2013. These have not been included in the *IFRS for SMEs* Standard. Paragraphs 17A and 18A state: 17A If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity's employees or directors. 18A Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

	Disclosure requirement	Background and Recommendation
		Paragraphs 17A and 18A were added to IAS 24 because the Board was informed of concerns that it is impracticable to access the detailed information that is required in paragraph 17 when compensation is paid to a separate management entity as fees (IAS 24 paragraph BC52). The Board therefore decided to provide relief in IAS 24 so that the reporting entity is not required to disclose the components of compensation to key management personnel that is paid through another entity. Instead, amounts incurred in respect of key management personnel compensation or key management personnel services, paid or payable to another entity, are required to be disclosed (IAS 24 paragraph BC52). Directors' services being made available through a group company could be commonly encountered by subsidiaries that are SMEs. **Recommendation:** add paragraphs 17A & 18A of IAS 24 into the reduced disclosure IFRS Standard to give the disclosure relaxation to subsidiaries that are SMEs.
5.	For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date. (Paragraph 28.43 of the *IFRS for SMEs* Standard)	IAS 19 does not include this disclosure requirement, although at the time that the *IFRS for SMEs* Standard was developed IAS 19 noted that IAS 1 requires an entity to disclose the nature and amount of an expense if it is material.

	Disclosure requirement	Background and Recommendation
		The Australian Accounting Standards Board (AASB) included this disclosure requirement in a list of disclosure requirements that in its opinion ‘exceed what is currently required under the full IFRS Standards’. The exposure draft preceding the *IFRS for SMEs* Standard included this disclosure requirement. A September 2008 Board paper notes that, in response to ‘views in comment letters and field tests’ that the requirement should be deleted because it is more onerous than full IFRS, working group members ‘do not think this disclosure is onerous or that it really goes beyond what would be required under IAS 1’. **Recommendation:** require subsidiaries that are SMEs to apply this disclosure requirement.
6.	For each category of other long-term benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date. (Paragraph 28.42 of the *IFRS for SMEs* Standard)	IAS 19 does not include this explicit disclosure requirement, although at the time that the *IFRS for SMEs* Standard was developed IAS 19 referred to IAS 1. The AASB included this disclosure requirement in a list of disclosure requirements that in its opinion ‘exceed what is currently required under the full IFRS Standards’ The exposure draft preceding the *IFRS for SMEs* Standard included a disclosure requirement that started with the words now in paragraph 28.42 and continued with two additional disclosure requirements.

	Disclosure requirement	Background and Recommendation
		A September 2008 Board paper recommended deleting the two additional requirements and did not comment on the wording now in paragraph 28.42. **Recommendation:** require subsidiaries that are SMEs to apply this disclosure requirement.
7.	This Standard does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information. (Paragraph 3.25 of the *IFRS for SMEs* Standard)	For segment information the staff proposal is to adapt paragraph 3.25 and combine it with an adapted version of paragraph 3 of IFRS 8, so that it reads: “An entity within the scope of IFRS XX is not required to apply IFRS 8 *Operating Segments*. If such an entity chooses to disclose information about segments that does not comply with IFRS 8, it shall not describe the information as segment information. An entity choosing to make such disclosures shall describe the basis for preparing and disclosing the information. An entity applying IFRS 8 shall state that it has applied IFRS 8.” However, the outcome is that if a subsidiary that applies the reduced disclosure IFRS Standard, chooses to apply IFRS 8, it will be required to state that it has applied IFRS 8. However, the subsidiary would not be required to state that it had applied IFRS 8 if it had not applied the reduced disclosure IFRS Standard.

	Disclosure requirement	Background and Recommendation
		Recommendation: include the proposed disclosure requirement in the reduced disclosure IFRS Standard so that it applies to subsidiaries that are SMEs.