

STAFF PAPER

December 2021

Accounting Standards Advisory Forum

Project	Subsidiaries without Public Accountability: Disclosures	
Paper topic	Proposed scope of the draft Standard	
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Purpose of this session

1. The purpose of this session is to seek Accounting Standards Advisory Forum (ASAF) members' views on the scope of the draft Standard *Subsidiaries without Public Accountability: Disclosures*.

Structure of this paper

2. This paper is structured as follows:
 - (a) background to the project (paragraphs 4–8 of this paper);
 - (b) proposed scope of the draft Standard (paragraphs 9–10 of this paper);
 - (c) should the scope be widened to include other entities? (paragraphs 11–14 of this paper);
 - (d) question for ASAF members;
 - (e) Appendix A: Extract from the Basis for Conclusions on the draft Standard—Scope; and
 - (f) Appendix B: Alternative view of Ms Françoise Flores on the draft Standard.
3. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard—entities that do not have public accountability

(as defined in paragraph 10 of this paper) and that publish general purpose financial statements for external users.

Background to the project

4. In July 2021, the International Accounting Standards Board (Board) published an Exposure Draft of a draft Standard *Subsidiaries without Public Accountability: Disclosures* (the ‘draft Standard’), which proposes to permit subsidiaries of a parent that applies IFRS Standards in its consolidated financial statements, to apply IFRS Standards with reduced disclosure requirements in their own financial statements. The Board added the project to its work plan in response to requests from stakeholders to the *Request for Views—2015 Agenda Consultation* to provide disclosure relief for these subsidiaries. The deadline for submitting comments on the Exposure Draft is 31 January 2022.
5. Many subsidiaries are eligible to apply the *IFRS for SMEs* Standard for their general purpose financial statements (as they do not have public accountability), which has fewer disclosures than IFRS Standards. However, they may find applying the *IFRS for SMEs* Standard unattractive because they need to report to their parent amounts that comply with the recognition and measurement requirements in IFRS Standards for group reporting purposes. A subsidiary applying the *IFRS for SMEs* Standard would need to maintain additional accounting records if there are recognition and measurement differences between the requirements in that Standard and IFRS Standards.
6. In developing the draft Standard, 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 entities without public accountability and incorporate cost–benefit considerations for those entities. The Board compared the recognition and measurement requirements in IFRS Standards and in the *IFRS for SMEs* Standard to identify any differences and applied the following approach:

- (a) when recognition and measurement requirements are the same, the disclosure requirements in the *IFRS for SMEs* Standard were used in the draft Standard.
- (b) when recognition and measurement requirements differ, the disclosure requirements in IFRS Standards were tailored and reduced for inclusion in the draft Standard using the same principles the Board applied to develop the disclosure requirements in the *IFRS for SMEs* Standard. These principles identify the information that users of SME financial statements find important and are set out in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Standard.

7. The following table summarises the approach adopted by the Board in developing the draft Standard:

Is there a recognition or measurement difference between IFRS Standards and the <i>IFRS for SMEs</i> Standard?	
Yes	No
Use and tailor the disclosure requirements in IFRS Standards	Use the disclosure requirements in the <i>IFRS for SMEs</i> Standard
Apply to the disclosure requirements in IFRS Standards the principles used to develop the disclosure requirements in the <i>IFRS for SMEs</i> Standard	Minor updates to: <ul style="list-style-type: none"> ▪ align terms and language with IFRS Standards ▪ update paragraph cross-references
In limited cases, the Board made exceptions to this approach	

8. The draft Standard is expected to eliminate unnecessary costs for subsidiaries without public accountability by allowing them to apply the same accounting policies as their parent but with reduced disclosures in preparing general purpose financial statements, while maintaining information needed by the users of those subsidiaries' financial statements.

Proposed scope of the draft Standard

9. An entity would be permitted to apply the draft Standard in its consolidated, separate or individual financial statements if and only if, at the end of its reporting period, it:
 - (a) is a subsidiary;¹
 - (b) does not have public accountability, as defined in the *IFRS for SMEs* Standard (see paragraph 10 of this paper); and
 - (c) has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards.

10. An entity has public accountability if:
 - (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance entities, securities brokers/dealers, mutual funds and investment banks would meet this criterion).

Should the scope be widened to include other entities?

Other SMEs

11. The proposed scope is consistent with feedback from stakeholders to the *Request for Views—2015 Agenda Consultation*. Those stakeholders—mainly preparers—asked for reduced disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards. The draft Standard was developed to address cost–benefit considerations for this subset of SMEs arising from their particular circumstances—namely subsidiaries that must report to their parent

¹ ‘Subsidiary’ is defined in Appendix A of IFRS 10 *Consolidated Financial Statements*.

applying IFRS Standards, but the users of the subsidiaries' own financial statements do not need the full disclosures required by IFRS Standards. These subsidiaries often have access to the group's resources and receive support in their application of IFRS Standards, which alleviates strain on their resources and helps them stay up to date with the ongoing changes to IFRS Standards. In contrast, the draft Standard is unlikely to be suitable for:

- (a) an SME that elects to apply IFRS Standards in preparing its own financial statements. Such an SME is usually responding to users' needs for full IFRS information. If preparing financial statements applying IFRS Standards is important to an SME's users, then disclosures required by IFRS Standards are likely to be equally important.
- (b) other SMEs that do not need to report to a parent applying IFRS Standards. Applying the draft Standard rather than the *IFRS for SMEs* Standard could be more costly for these SMEs as the *IFRS for SMEs* Standard considers the costs to SMEs and the resources of SMEs to prepare financial statements and contains several simplifications to the recognition and measurement principles in IFRS Standards. Furthermore, amendments to the *IFRS for SMEs* Standard are not expected to be more frequent than approximately once every three years to provide SMEs with a stable platform. SMEs may not have the resources to stay up to date with the ongoing changes to IFRS Standards.
- (c) SMEs that are associates or joint ventures of an investor applying IFRS Standards. These investees are not part of the investor's group, which usually means the investor cannot direct them to report IFRS information under the group's accounting policies and they generally do not have access to the group resources to stay up to date with ongoing changes to IFRS Standards. For these reasons, applying the draft Standard rather than the *IFRS for SMEs* Standard could be more costly for these SMEs as explained in (b).

12. Paragraphs BC12–BC22 of the Basis for Conclusions on the Exposure Draft (reproduced in Appendix A to this paper) further explain the Board's reasons for restricting the scope to subsidiaries that are SMEs. Nevertheless, one Board member

held the alternative view that all SMEs should be eligible to apply the draft Standard, and this is set out in paragraphs AV1–AV8 at the end of the Basis for Conclusions (reproduced in Appendix B to this paper).

Subsidiaries or other entities with public accountability

13. As explained in paragraphs 6–7 of this paper, the Board’s approach in developing the draft Standard was:
 - (a) to use the disclosure requirements in the *IFRS for SMEs* Standard when there are no recognition and measurement differences from IFRS Standards; and
 - (b) when there are such differences, to tailor the disclosures in IFRS Standards using the same principles applied to develop the disclosure requirements in the *IFRS for SMEs* Standard (paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Standard).

14. Therefore, if the scope was widened to include some publicly accountable entities (entities that are outside the scope of the *IFRS for SMEs* Standard), the Board would need to reconsider its fundamental approach to the project. In particular:
 - (a) the disclosure requirements in the *IFRS for SMEs* Standard were specifically designed for SMEs and users of SME financial statements, and on this basis they were substantially reduced from the disclosure requirements in IFRS Standards. Therefore, there would likely to be pressure for additional disclosure requirements to be added to the draft Standard to satisfy the needs of the wider group of financial statement users of publicly accountable entities (eg capital market investors).
 - (b) both during development of the *IFRS for SMEs* Standard and during the second comprehensive review of the *IFRS for SMEs* Standard the staff performed significant outreach with users of SME financial statements to confirm the principles in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Standard appropriately identify their needs. Therefore, the staff would need to go back and perform this outreach with the wider group of users of

publicly accountable entities to identify whether these principles are appropriate and if additional principles are necessary.

Question for ASAF members

Question
Paragraphs 9–10 of this paper set out the proposed scope of the draft Standard. Do ASAF members have any preliminary views or comments on the proposed scope?

Appendix A

Extract from the Basis for Conclusions on Exposure Draft *Subsidiaries without Public Accountability: Disclosures–Scope*.

Scope

- BC12 The Board is proposing that the draft Standard be available for entities without public accountability that, at the end of their reporting period:
- (a) are subsidiaries (paragraphs BC13–BC19); and
 - (b) meet one further criterion (paragraphs BC20–BC22).

Subsidiaries without public accountability

- BC13 The Board is proposing that only a subsidiary without public accountability (see paragraph 6(a)–(b) of the draft Standard) be permitted to apply the draft Standard, consistent with the Board’s decision when it added the project to the research pipeline (see paragraph BC3).
- BC14 The Board’s proposal is that a subsidiary applying the draft Standard would also be eligible to apply the *IFRS for SMEs* Standard. Therefore, to be permitted to apply the draft Standard, a subsidiary cannot have public accountability (see paragraph 6(b) of the draft Standard). The draft Standard includes the description of public accountability from paragraphs 1.3–1.4 of the *IFRS for SMEs* Standard (see paragraphs 7–8 of the draft Standard).
- BC15 The Board considered whether to permit other types of SMEs (that is, other entities without public accountability), such as joint ventures and associates, or all SMEs to apply the draft Standard. Arguments supporting such an approach include that:
- (a) although the request to the Board was in respect of subsidiaries with parents presenting consolidated financial statements applying IFRS Standards, and was to reduce costs for the group, the project is eliminating disclosure requirements that are not intended for the users of SMEs’ financial statements. As such, other SMEs, like joint ventures and associates, and not just subsidiaries, might prefer applying the draft Standard.
 - (b) permitting other types of SMEs to apply the draft Standard could encourage some SMEs that do not apply IFRS Standards to apply IFRS Standards. Further, in a jurisdiction that does not permit the *IFRS for SMEs* Standard to be applied, applying the draft Standard, rather than local generally accepted accounting principles (GAAP), might enable the entity to reduce its cost of capital.
 - (c) although the project focuses on reducing costs for subsidiaries that are SMEs, other entities that meet the definition of SMEs could also benefit from reduced costs. For example, an SME that, in the medium or long term, plans to issue debt or equity instruments that would be traded in a public market, might prefer to apply IFRS Standards instead of local GAAP or the *IFRS for SMEs* Standard, and so would benefit from the cost reduction available by applying the draft Standard.
 - (d) an option for all SMEs to apply IFRS Standards with reduced disclosures could allow the Board to develop a more simplified version of the *IFRS for SMEs* Standard.
 - (e) permitting all SMEs to apply the draft Standard would provide more options for a jurisdiction’s financial reporting framework. For example, some jurisdictions that have developed local GAAP requirements for all SMEs based on IFRS Standards with reduced disclosure requirements could replace their local GAAP requirements. Other jurisdictions could require some SMEs to apply IFRS Standards (including the draft Standard) and require other SMEs to apply the *IFRS for SMEs* Standard.
- BC16 After considering the arguments, the Board decided that it should not expand eligibility to apply the draft Standard, because:
- (a) the proposed scope is consistent with the project objective and the feedback from stakeholders calling for reduced disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards.

- (b) the Board has considered SMEs' reporting requirements and, based on users' needs and on cost–benefit considerations, it developed the *IFRS for SMEs* Standard. That Standard is applied in many jurisdictions.
- (c) the Board considered not only the needs of users of SMEs' financial statements when it developed the *IFRS for SMEs* Standard, but also the resources available to SMEs to apply that Standard (see paragraph BC47 of the *IFRS for SMEs* Standard). Subsidiaries that have access to the group's resources generally receive support in their application of IFRS Standards that alleviate strain on their resources.
- (d) an entity electing to apply IFRS Standards in preparing its financial statements is usually responding to users' needs. If preparing financial statements applying IFRS Standards is important to an SME's users, then disclosures required by IFRS Standards are likely to be equally important. Subsidiaries that are SMEs that have to report to their parent applying IFRS Standards are *required* to apply the recognition and measurement requirements in IFRS Standards, and in their own financial statements reduced disclosures are preferred because they reduce costs while satisfying the needs of SME users. The same cannot be said of an SME that *prefers* to apply recognition and measurement requirements in IFRS Standards but with reduced disclosures.
- (e) the Board's project is intended to address cost–benefit considerations for a subset of SMEs—subsidiaries—arising from their particular circumstances (as discussed in paragraph BC2). Therefore, when the project was added to the Board's research pipeline, it investigated an approach with those SMEs in mind.
- (f) the proposal to reduce disclosure requirements significantly is a new approach for the Board and its stakeholders. Restricting the scope to subsidiaries that are SMEs enables the Board and its stakeholders to test that approach. Should the proposals in this Exposure Draft proceed to a Standard, the Board could consider the approach in practice and collect stakeholder feedback to decide whether the Board should or could allow more SMEs to apply such a Standard.
- (g) the Board develops disclosure requirements in IFRS Standards considering the information needs of users of the financial statements. The Board concluded that it should exercise caution when introducing a new IFRS Standard that exempts some entities from some of these requirements.
- (h) eligible subsidiaries would want to apply changes to the requirements in IFRS Standards in their own financial statements at the same time as their parent to avoid the need for additional accounting records, and would not want a delayed effective date. If the scope of the draft Standard were extended to all SMEs, there is a concern that the Board would receive requests for the effective date of changes to the recognition and measurement requirements in IFRS Standards to be later for these SMEs. Based on feedback that some SMEs do not have internal accounting resources or the resources to hire accounting advisers on an ongoing basis, the Board decided to update the *IFRS for SMEs* Standard periodically (see paragraph BC163 of the Basis for Conclusions of the *IFRS for SMEs* Standard). Amendments to the *IFRS for SMEs* Standard are not expected to be more frequent than approximately once every three years, and usually after a comprehensive review, to provide SMEs with a stable platform.
- (i) if the draft Standard can be applied by any SME, it may be seen as a competing Standard with the *IFRS for SMEs* Standard. For example, permitting all SMEs to apply the draft Standard might result in some jurisdictions permitting the draft Standard to be applied and not permitting the *IFRS for SMEs* Standard to be applied, or might result in some lenders or investors requiring that the draft Standard be applied by an SME because they perceive it to be superior to the *IFRS for SMEs* Standard. However, applying the draft Standard rather than the *IFRS for SMEs* Standard could be more costly for some SMEs as the *IFRS for SMEs* Standard considers the costs to SMEs and the resources of SMEs to prepare financial statements and contains several simplifications to the recognition and measurement principles in IFRS Standards.

At the end of the reporting period

- BC17 The Board is proposing that only a subsidiary without public accountability at the end of its reporting period can apply the draft Standard. The Board considered other approaches, such as permitting an entity to apply the draft Standard if the entity was a subsidiary at any time during the reporting period, or at the start of its reporting period.

- BC18 If the Board were to permit an entity to apply the draft Standard if the entity were a subsidiary at the start of, or at any time during, its reporting period, an entity that ceased to be a subsidiary near the end of its reporting period would remain eligible to apply the draft Standard for that reporting period. This would allow more time for the entity to make any necessary changes to its financial reporting systems. However, in the Board’s view a transaction resulting in an entity ceasing to be a subsidiary would usually have been planned for some time thus allowing the entity to make any necessary changes to its reporting systems and processes.
- BC19 Further, permitting an entity to apply the draft Standard if that entity were a subsidiary at the start of, or at any time during, its reporting period would result in an entity that ceased to be a subsidiary near the start of its reporting period remaining eligible to apply the draft Standard for that reporting period despite it not having been a subsidiary for most of the reporting period. The Board also concluded that specifying that the entity is required to be a subsidiary at the end of the reporting period is simple and clear.

Other qualifying criterion

- BC20 The Board is proposing that the draft Standard should be available only to subsidiaries of a parent that produces consolidated financial statements that comply with IFRS Standards. Paragraph 6(c) of the draft Standard is based on the requirements in paragraph 4(a)(iv) of IFRS 10 *Consolidated Financial Statements*. If a subsidiary, Entity A, is also a parent and its ultimate parent, and any intermediate parents, present consolidated financial statements applying accounting standards other than IFRS Standards, in accordance with IFRS 10, Entity A would present consolidated financial statements (see paragraph 4(a)(iv) of IFRS 10). Subsidiaries of Entity A would be eligible to apply the draft Standard if they do not have public accountability.
- BC21 Restricting the scope to subsidiaries of a parent that produces consolidated financial statements that comply with IFRS Standards is consistent with stakeholder feedback about the need for reduced disclosure requirements for such subsidiaries. If the draft Standard is not limited to such subsidiaries, then those subsidiaries would incur additional costs (the project aims to eliminate these costs). If a parent applied a different GAAP, a subsidiary applying the draft Standard would need to monitor recognition and measurement differences between the two reporting frameworks. To remain true to the project objective, the Board decided to limit the scope of the draft Standard to subsidiaries whose parent produces consolidated financial statements that comply with IFRS Standards.
- BC22 Some may believe that by limiting the scope of the draft Standard to subsidiaries of a parent that produces consolidated financial statements complying with IFRS Standards, the full disclosures required by IFRS Standards about the subsidiary would be available in the parent’s consolidated financial statements. However, this is not necessarily true:
- (a) consolidated financial statements are prepared applying a materiality assessment appropriate for the group, whereas the subsidiary’s financial statements are prepared applying a materiality assessment appropriate for that subsidiary; and
 - (b) the principles applied to establish disclosure requirements for the draft Standard are the same principles the Board used when it developed the disclosure requirements in the *IFRS for SMEs* Standard—those principles do not assume that consolidated financial statements would be available.

Appendix B

Alternative view of Ms Françoise Flores on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*

- AV1 Ms Flores voted against the proposals in the Exposure Draft. Ms Flores agrees with designing disclosure requirements that are specific to entities without public accountability and that apply IFRS recognition and measurement requirements. However, she opposes restricting such requirements to subsidiaries that are SMEs. As noted in the Basis for Conclusions, the Board developed the proposed disclosure requirements following an approach relevant for all entities without public accountability, and hence without taking into account any characteristics of a subsidiary. Ms Flores therefore believes that all entities without public accountability should be eligible to apply the draft Standard, because it is by design relevant to all of them. Ms Flores holds this view for several reasons, both strategic and technical.
- AV2 Ms Flores notes that the IFRS Foundation's mission is to develop standards that bring transparency, accountability and efficiency to financial markets around the world. To fulfil this mission, the Board should make decisions that facilitate the widest possible use of IFRS Standards. In Ms Flores' view, expanding the eligibility of the draft Standard would be in line with the IFRS Foundation's mission. So far, the Board has developed IFRS Standards that are specifically designed for publicly accountable entities and developed and maintained the *IFRS for SMEs* Standard, which is available only to entities without public accountability. The draft Standard could open IFRS Standards to entities that currently apply neither IFRS Standards nor the *IFRS for SMEs* Standard. An entity may decide against applying IFRS Standards because of the cost of complying with disclosure requirements that go far beyond what users of the entity's financial statements need. An entity may refrain from applying the *IFRS for SMEs* Standard because the entity deems the Standard unsuitable for the entity's size or the sophistication of its transactions. Some entities without public accountability may wish to apply IFRS Standards to remain comparable with their publicly accountable peers, or because they plan to raise finance on public markets in the medium term. Expanding the eligibility of the draft Standard would enable such entities to apply IFRS Standards more easily.
- AV3 In deciding on a restricted scope, the Board de facto restricts the choice jurisdictions can make, that is, either requiring non-publicly accountable entities to apply IFRS Standards with disclosure requirements that are deemed too costly and not adjusted to the needs of their financial statements' users, or requiring the use of the *IFRS for SMEs* Standard. In Ms Flores' view, such a limited choice was acceptable until the IFRS Foundation dedicated resources to developing in IFRS Standards disclosure requirements for entities without public accountability. Because such requirements are available, no entity and its financial statements' users should bear the cost of unnecessary disclosures, and no jurisdiction should be prohibited from opening the use of the draft Standard to all entities without public accountability that the jurisdiction regulates. Given the extreme diversity of SMEs in terms of size and level of sophistication, a jurisdiction could mandate the requirements' use by a subset of such entities—for example, by specifying criteria when regulating what standards an entity should use, in a way that best fits the jurisdiction's circumstances. In Ms Flores' view, as a standard-setter, the Board can legitimately restrict eligibility only when doing otherwise would be contrary to transparency, accountability and efficiency in financial markets.
- AV4 No argument for the proposed eligibility restriction that the Board put forward convinced Ms Flores. In Ms Flores' view:
- (a) having received demand for reduced disclosure requirements specifically for subsidiaries without public accountability neither restricts the Board's scope of analysis nor justifies limiting appropriate research.
 - (b) the *IFRS for SMEs* Standard, which contains reduced disclosure requirements, has been effective for 12 years. In its proposals for a reduced-disclosure Standard, the Board has either retained the disclosure requirements in the *IFRS for SMEs* Standard or used the same approach as it did when developing them. If this approach were likely to lead to negative outcomes, those outcomes would have already arisen from the application of the *IFRS for SMEs* Standard. Hence, there is no such thing as 'a new approach' and the caution the Board claims it needs does not seem justified.
 - (c) according to the Board, cost-benefit considerations would necessarily lead SMEs other than subsidiaries to apply the *IFRS for SMEs* Standard, not IFRS Standards. As further developed in paragraph AV5, the proper cost-benefit trade-off is very difficult to judge, given the diversity of SMEs. Furthermore, because IFRS Standards and the *IFRS for SMEs* Standard lead to separate

adoption decisions, the Board should not factor in a decision related to an IFRS Standard that the *IFRS for SMEs* Standard is available for adoption. Non-publicly accountable entities already apply IFRS Standards in jurisdictions that mandate their use (for example, in several European countries) and cost savings associated with the draft Standard should be made available to them.

- (d) the Board expressed concern that if the draft Standard were to be open to all SMEs, pressure would be exercised to require greater stability in IFRS requirements. As they stand, IFRS Standards are already open to all SMEs and Ms Flores is not aware that such pressure emanating specifically from SMEs has been expressed. Nor is she aware that recognition and measurement requirements in IFRS Standards would not be workable for stand-alone entities. The Board has also expressed concern that, were the draft Standard open to all SMEs, IFRS Standards may ‘compete’ with the *IFRS for SMEs* Standard. In contrast with that view and as is explained in paragraph AV5, Ms Flores believes that widening the scope of the draft Standard to include all SMEs would help to set a better direction for the evolution of the *IFRS for SMEs* Standard.

AV5 While developing this Exposure Draft, the Board was leading the second comprehensive review of the *IFRS for SMEs* Standard. Feedback on the Request for Information is mixed: some respondents want the Standard to remain simple and easy to apply; others give precedence to close alignment with the recognition and measurement requirements in IFRS Standards. Such tension was already evident after the first comprehensive review, when the Board added options to the *IFRS for SMEs* Standard in addition to the IAS 39 *Financial Instruments: Recognition and Measurement* fallback, making the Standard more complex and leading to less comparability. The feedback reflects that the current scope of the *IFRS for SMEs* Standard is extremely wide, which creates tensions in how to accommodate antagonistic needs. Making proper cost-benefit determinations is difficult, if at all possible, because circumstances relating to cost and benefit vary greatly. In Ms Flores’ view the Board’s maintenance strategy for the *IFRS for SMEs* Standard would be greatly facilitated if the scope of the draft Standard included all non-publicly accountable entities. The Board could affirm the objective of keeping the *IFRS for SMEs* Standard simple and easy to apply, and alignment with IFRS Standards would be achieved at main-principle level while giving proper consideration to specific users’ needs.

AV6 Technical considerations have also contributed to Ms Flores’ alternative view. First and foremost, Ms Flores believes that any scope restriction should be fully justified from a financial reporting perspective, for example, if it were found that applying requirements outside the scope would be contrary to users’ needs. As stated earlier, the current proposals have been designed without taking into account any characteristics of a subsidiary, so from a technical standpoint, the scope restriction is not relevant. Any non-publicly accountable entity using the draft Standard would provide disclosures that meet users’ needs, irrespective of whether that entity is a subsidiary of an entity applying IFRS Standards.

AV7 Any entity without public accountability currently applying IFRS Standards should be helped to eliminate from its financial statements disclosures that are not deemed material. Help to remove such disclosures would be consistent with the Board’s Disclosure Initiative standard-setting efforts that help provide all and only useful information and help make a more reasonable cost-benefit trade-off for entities without public accountability applying IFRS Standards.

AV8 Furthermore, eligibility restrictions could force an entity to change disclosure regime when its economic conditions and users’ needs remain unchanged, because of a change in control or a change in its parent’s accounting policy. Were an entity to cease being eligible, the proposals would require the entity and its users to bear significant costs, because the entity would be forced at short notice to provide a full set of disclosures, which the Board has deemed not useful to users. In Ms Flores’ view, such a situation is unjustified and marks a departure from the *Conceptual Framework for Financial Reporting*, because it would introduce a breach of consistency from period to period and infringe the cost constraint, materiality and relevance of information.