Emerging Economies Group

Subsidiaries without Public Accountability: Disclosures

Emerging Economies Group Meeting

EEG Agenda Paper 1
December 2021
Purpose of this meeting

In July 2021, the IASB published the **Exposure Draft Subsidiaries without Public Accountability: Disclosures**

The Exposure Draft sets out the IASB’s proposal for a new IFRS Standard that would permit eligible subsidiaries to apply IFRS Standards with a reduced set of disclosure requirements.

The staff will provide an overview of the proposals in the Exposure Draft **Subsidiaries without Public Accountability: Disclosures**.

The staff would like to discuss with EEG members the IASB proposals, particularly EEG members’ views on:

- the scope of the draft IFRS Standard; and
- the benefits and implementation costs of the proposals.
Contents

- EEG members financial reporting framework
- Objective and scope
- Developing the disclosure requirements
- Structure and application of the draft IFRS Standard
- Discussion
EEG members financial reporting framework
EEG members Financial Reporting Framework

• Refer to a separate paper
Objective and scope
Why is the IASB undertaking this project?

Parent prepares consolidated financial statements applying IFRS Standards

Subsidiary submits consolidation pack applying IFRS Standards

Subsidiary’s Financial Statements

Apply IFRS Standards?

BUT disclosures are designed for publicly accountable entities

Apply local GAAP or the IFRS for SMEs Standard?

BUT requires additional accounting records
Exposure Draft proposals

- Parent
  - Parent prepares consolidated financial statements applying IFRS Standards

- Subsidiary
  - Subsidiary submits consolidation pack applying IFRS Standards
  - Subsidiary's Financial Statements
    - Apply IFRS Standards with reduced disclosure requirements (Draft IFRS Standard Subsidiaries without Public Accountability: Disclosures)
Benefits of the proposals

Reduced costs for preparers

- single set of accounting policies applied
- one set of accounting records
- reduced work for finance team

Tailored disclosures for users

- disclosures designed for non-publicly accountable entities
- disclosures tailored towards users’ needs

A preparer said “we have hundreds of subsidiaries around the world that do not have public accountability, that individually report applying IFRS Standards and prepare general purpose financial statements for local requirements—these subsidiaries can benefit from these proposals”.
Proposed Scope

Scope

Voluntary application in consolidated or individual financial statements available to subsidiaries at the end of the reporting period:

a) that do **not have public accountability**; and

b) whose parent prepares consolidated financial statements available for public use that comply with IFRS Standards

Who has public accountability?

- Equity or debt instruments traded in public market
- Hold assets in a fiduciary capacity for a broad group of outsiders

Includes most banks and insurance companies
**Illustration: Eligible subsidiaries**

**Scenario 1**
- Parent **prepares** consolidated FS applying IFRS Standards
- Subsidiary does **not have** public accountability
- Eligible? **✓**

**Scenario 2**
- Parent **prepares** consolidated FS applying local GAAP
- Subsidiary does **not have** public accountability
- Eligible? **✗**

**Scenario 3**
- Ultimate parent does **not prepare** consolidated FS
- Intermediate parent **prepares** consolidated FS applying IFRS Standards
- Subsidiary does **not have** public accountability
- Eligible? **✓**
Developing the disclosure requirements
Developing the disclosure requirements

**Approach**
Start with the disclosure requirements in the *IFRS for SMEs* Standard and tailor to reflect recognition and measurement requirements in IFRS Standards.

**Why?**
Disclosure requirements in the *IFRS for SMEs* Standard are:
- **substantially reduced** from IFRS Standards
- intended to **meet information needs of users** of financial statements of non-publicly accountable entities

In tailoring disclosure requirements, the IASB applied the principles it used to develop the disclosure requirements in the *IFRS for SMEs* Standard.

This approach does not require the IASB to develop new disclosure requirements.
Developing the disclosure requirements

**Agenda ref 1**

**Development of the disclosure requirements**

**IFRS Standards** (issued as at 28 February 2021)

- Use **IFRS for SMEs** Standard disclosures with minor updates
  - **NO**
  - **YES**

- **Recognition or measurement difference with the IFRS for SMEs Standard?**
  - **IFRS Standards disclosures**
  - **Use IFRS Standards disclosures tailored applying principles**

- **Disclosure requirements based on IFRS Standards** (simplified applying paragraphs BC156 and BC157 principles)
### Principles applied in assessing users’ needs

<table>
<thead>
<tr>
<th>Principle</th>
<th>Information Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity and solvency</td>
<td>Information about the ability to generate cash flows and continue as a going concern</td>
</tr>
<tr>
<td>Short-term cash flows, obligations, commitments and contingencies</td>
<td>Information about ability to meet obligations</td>
</tr>
<tr>
<td>Measurement uncertainty</td>
<td>For example, how provisions are measured or how impairment is calculated and the inputs used in those calculations</td>
</tr>
<tr>
<td>Disaggregation of amounts</td>
<td>For example, reconciliation of PPE or defined benefit liabilities</td>
</tr>
<tr>
<td>Accounting policy choices</td>
<td>For example, accounting policy for measuring inventories or investment properties</td>
</tr>
</tbody>
</table>

These principles are from paragraph BC157 of the Basis for Conclusions on the IFRS for SMEs Standard and identify the information users find important.
The Exposure Draft proposes reduced disclosure requirements for all IFRS Standards issued as at 28 February 2021 and exposure drafts published as at 1 January 2021, except for:

- IFRS 17 *Insurance Contracts*
- IFRS 8 *Operating Segments*
- IAS 33 *Earnings per Share*
- Exposure Draft *General Presentation and Disclosures*
IFRS Standards and *IFRS for SMEs* Standard

IFRS Standards

- Recognition, measurement, presentation requirements
- Draft IFRS Standard *Subsidiaries without Public Accountability: Disclosures*
  
  Developed for companies with publicly accountability

*Disclosure requirements* in the *IFRS for SMEs* Standard was used as a starting point.

*IFRS for SMEs* Standard

- Disclosure requirements*

  Developed for companies without publicly accountability
Structure and application of the draft IFRS Standard
# Structure of the draft IFRS Standard

## Agenda ref 1

### Main body

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

### Appendices

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

Requirements for inventories

Go to other IFRS Standards (for example, IAS 2 Inventories) for recognition, measurement and presentation requirements

Go to the draft IFRS Standard (under the sub-heading IAS 2 Inventories) for disclosure requirements

Some disclosure requirements in other IFRS Standards could apply

Disclosure requirements in IFRS Standards that remain applicable are generally stated in a footnote to the subheading of the IFRS Standard to which they relate
## FAQs

<table>
<thead>
<tr>
<th>Compliance statement</th>
<th>The Exposure Draft proposes a subsidiary discloses it has applied the draft IFRS Standard, and this disclosure be located with the explicit and unreserved statement that the financial statements have been prepared in compliance with IFRS Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interaction with IFRS 1</td>
<td>The commencement or cessation of application of the draft IFRS Standard does not, in itself, result in an entity meeting the definition of a first-time adopter (see slide 22)</td>
</tr>
<tr>
<td>Transition</td>
<td>The Exposure Draft does not include transition requirements</td>
</tr>
<tr>
<td>Maintenance</td>
<td>The IASB will consider amendments to the draft IFRS Standard when it publishes an exposure draft of a new or amended IFRS Standard</td>
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</tbody>
</table>
Transition to the draft IFRS Standard and interaction with IFRS 1

The draft IFRS Standard has no specific transition provision

Applied IFRS Standards in preceding period

- **20X1**: Applied IFRS Standard but *not* the draft IFRS Standard
- **20X2**: Applies IFRS Standards and elects to apply the draft IFRS Standard

**Would not apply IFRS 1 in 20X2 because it prepared financial statements applying IFRS Standards in a preceding period**

Did not apply IFRS Standards in preceding period

- **20X1**: Applies IFRS Standards and elects to apply the draft IFRS Standard
- **20X2**: Applied *IFRS for SMEs* Standard or local GAAP

**Apply IFRS 1 in 20X2 because in 20X2 it prepared its first financial statements applying IFRS Standards**
Comparative Information

Applied draft Standard in current period but not preceding period

20X1

Applied IFRS Standard but not the draft IFRS Standard

20X2

Applies the draft IFRS Standard

Less disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information only for information reported in 20X2

Applied draft Standard in preceding period but not current period

20X1

Applied the draft IFRS Standard

20X2

Applies IFRS Standard but not the draft IFRS Standard

More disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information for information reported in 20X2

Unless other IFRS Standard requires or permits otherwise
The Exposure Draft *Subsidiaries without Public Accountability: Disclosures* is open for comment until 31 January 2022. The Exposure Draft can be accessed [here](#).

The Snapshot that provides an overview of the IASB's proposals can be accessed [here](#).
Questions
<table>
<thead>
<tr>
<th>Questions</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope</strong></td>
<td>Do you agree with the proposed scope of the draft IFRS Standard?</td>
</tr>
<tr>
<td><strong>Adoption</strong></td>
<td>Given your financial reporting framework (see slide 5), Do you see any barriers to your jurisdiction adopting the draft IFRS Standard?</td>
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<tr>
<td><strong>Benefits and cost–benefit assessment</strong></td>
<td>Do you agree that the IASB’s proposal will simplify and reduce the cost of financial reporting of eligible subsidiaries?</td>
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<tr>
<td></td>
<td>Do you agree that the benefits of the draft IFRS Standard would exceed the costs of applying it?</td>
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<tr>
<td><strong>Usefulness of financial statements</strong></td>
<td>Do you agree that the IASB’s proposals would maintain the usefulness of eligible subsidiaries’ financial statements?</td>
</tr>
<tr>
<td><strong>Structure of the draft IFRS Standard</strong></td>
<td>Do you agree with the structure of the draft IFRS Standard?</td>
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</tbody>
</table>
Thank you!

For more details about the project and the Exposure Draft, please refer to the Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures project page on the IFRS website.

Please also get in touch by sending us an email at subsidiaries@ifrs.org.