IFRS

STAFF PAPER

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IASB® Meeting

Project	**Disclosure Initiative—Subsidiaries that are SMEs**		
Paper topic	Due process		
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Purpose of this paper

1. This paper:
   (a) summarises the due process steps taken to date on the *Disclosure Initiative—Subsidiaries that are SMEs* project;
   (b) recommends the length of the comment period for the Exposure Draft;
   (c) requests permission for the staff to begin the balloting process for the Exposure Draft; and
   (d) asks if any International Accounting Standards Board (Board) member plans to dissent from the proposals in the Exposure Draft.

Overview

2. This paper is structured as follows:
   (a) project background including previous due process decisions (paragraphs 3–7);
   (b) summary of due process steps (paragraphs 8–16);
   (c) comment period (paragraphs 17–19);

(d) permission to begin the balloting process and intention to dissent (paragraphs 20–21);

(e) Appendix A—due process steps taken in the development of the Exposure Draft;

(f) Appendix B—public meetings of the Board and its consultative bodies;

(g) Appendix C—project background;

(h) Appendix D—summary of the Board's tentative decisions; and

(i) Appendix E—summary analysis of the expected effects.

Background

3. The Board is undertaking the *Disclosure Initiative—Subsidiaries that are SMEs* project following suggestions received in response to the Request for Views: *2015 Agenda Consultation*.

4. The following information is provided to Board members:

   (a) Appendix C—project background;

   (b) Appendix D—summary of the Board's tentative decisions; and

   (c) Appendix E—summary analysis of the expected effects of the proposals in the Exposure Draft.

Project approach

5. The Board's agreed approach to the project was to use the disclosure requirements of the *IFRS for SMEs* Standard when there is no recognition and measurement difference with IFRS Standards, and to apply the principles in paragraph BC157 of the *IFRS for SMEs* Standard to identify adaptations to the disclosure requirements of the *IFRS for SMEs* Standard when there is such difference. This approach, which was agreed by the Board in its October 2019 meeting:

(a) does not require the Board to develop new disclosure requirements because it:

(i) uses the disclosure requirements of the *IFRS for SMEs* Standard which the Board has already satisfied itself are sufficient to meet user needs. See paragraphs C3–C4 of Appendix C.

(ii) uses the disclosure requirements of IFRS Standards in adapting the disclosure requirements of the *IFRS for SMEs* Standard.

(b) has been discussed with stakeholders. Nevertheless, further outreach and research will be performed during the comment period of the Exposure Draft.

Timeline

6. In January 2020, the Board moved the project from the research programme to the standard-setting programme. Subsequently, the staff have developed suggested disclosure requirements for a proposed reduced-disclosure IFRS Standard based on an analysis of the requirements of the *IFRS for SMEs* Standard and those of IFRS Standards. The analyses and suggested disclosure requirements were developed applying the approach agreed by the Board in its October 2019 meeting and additionally have been reviewed by at least two Board members. Exceptions to the agreed approach and other matters arising were discussed in a number of public meetings with the Board between October 2020–January 2021.

7. In January 2021, the Board decided to publish an exposure draft as the next due process step for the project.

Summary of due process steps

8. Paragraph 6.6 of the *Due Process Handbook* states that:

> When the Board has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals (see paragraphs 3.76–3.81 [of the *Due Process Handbook*]), the technical staff presents a paper to the Board:

(a) summarising the steps that the Board has taken in developing the proposals, including a summary of when the Board discussed the project in public meetings, public hearings held, outreach activities and meetings of consultative groups;

(b) if applicable, reaffirming why the Board has decided that it was not necessary to have a consultative group or to have conducted fieldwork; and

(c) recommending a comment period for the exposure draft.

9. Paragraphs 10–16 discuss the due process steps undertaken during the project, including how optional due process steps were considered. Appendix A provides a more detailed account of the due process steps undertaken. Paragraphs 17–19 discuss the recommendation for the comment period and paragraphs 20–21 asks the Board's permission to begin the balloting process and whether any Board member intends to dissent from the proposed Exposure Draft.

Board meetings

10. The Board is required to debate all proposals in public meetings. The Board agreed the approach to be taken in the project, which is explained in paragraph 5, at its October 2019 meeting. Exceptions from the approach and other matters arising from the development and review of the analyses and suggested disclosure requirements were discussed at public meetings.

11. The Board discussed the project at 14 public meetings between April 2016 and January 2021. Appendix B provides a list of these meetings and topics discussed.

Reporting to the IFRS Advisory Council

12. The Board is required to update the IFRS Advisory Council on its technical programme and major projects as part of its due process (paragraph 3.54 of the *Due Process Handbook*). The IFRS Advisory Council received regular updates on the status and progress of the project as part of the discussion of the Board's activities. In

September 2019, the IFRS Advisory Council discussed the proposal to move the project from the research programme to the standard-setting programme.

Meetings with consultative bodies

13. The project was discussed at meetings of the Board's consultative bodies, including the Accounting Standards Advisory Forum (ASAF), the Global Preparers Forum (GPF) and Emerging Economies Group (EEG). Appendix B provides a list of these meetings and topics discussed.

14. Input received at those meetings was reported to and considered by the Board.

Other outreach activities and consultations

15. Board members and the staff have undertaken outreach and consultation with preparers and users of SME financial statements. Discussions with users primarily focused on understanding their information needs. Specifically, users of SME financial statements were asked about their views on paragraph BC157 of the *IFRS for SMEs* Standard which has been applied in developing the suggested disclosure requirements in the proposed reduced-disclosure IFRS Standard when there is a recognition and measurement difference between IFRS Standards and the *IFRS for SMEs* Standard. Discussions with preparers focused on the structure of the proposed reduced-disclosure IFRS Standard.

Optional due process steps

16. The Board did not undertake the following optional (comply or explain) due process steps in this project:

    (a) publishing a discussion paper. As noted in paragraph 7, the Board decided, in January 2021, to publish an exposure draft for the project instead of a discussion paper for reasons set out in Agenda Paper 31C *Consultation* *document—discussion paper or exposure draft* of the January 2021 Board meeting.

(b) establishing a consultative group. In January 2020, the Board decided not to establish a consultative group for the project, mainly because the project does not involve developing new disclosure requirements (see Agenda Paper 31 *Project proposal—moving the project to the standard-setting programme* of the January 2020 Board meeting).

(c) holding public hearings. As noted in paragraph 13, the project was discussed at meetings of the Board's consultative bodies.

(d) undertaking fieldwork. As noted in paragraph 15, outreach and consultation were undertaken with preparers and users of SME financial statements.

Comment period

17. Paragraph 6.7 of the *Due Process Handbook* states that the Board normally allows a minimum period of 120 days for comment on an exposure draft. If a topic is narrow in scope and urgent, the Board may set a comment period shorter than 120 days, but no less than 30 days, after consulting and obtaining approval from the Due Process Oversight Committee.

18. In recommending the comment period, the staff have considered the following factors:

(a) the proposals to be set out in the Exposure Draft are not complex. The proposed-reduced disclosure IFRS Standard would not introduce new accounting requirements or new disclosure requirements in IFRS Standards (see paragraph E9 of Appendix E). The staff anticipate stakeholder feedback will focus on the appropriateness of the suggested disclosure requirements.

(b) although covid-19 has put additional pressures on our stakeholders, the project aims to provide relief to preparers who are within the scope of the project and has potential to reduce costs for them. Any steps undertaken that prolong the standard-setting process delays the benefits that could be available to preparers.

(c) completing the project sooner would free up Board's resources.

(d) the staff anticipate that the Exposure Draft would be published in the second half of 2021. Appendix B of Agenda Paper 8 *Work Plan* of the January 2021 Board meeting sets out the estimated timetable of consultation documents; many of the other consultation documents that the Board has and expects to publish in 2021 have comment periods ending before September 2021.

19. For the reasons set out in the previous paragraph, the staff recommend a comment period of 120 days for the Exposure Draft.

Permission to begin the balloting process and intention to dissent

20. This paper demonstrates that the Board has completed all the steps necessary for the balloting of the Exposure Draft. Consequently, the staff are requesting permission to begin the balloting process.

21. In accordance with paragraph 6.9 of the *Due Process Handbook*, the staff would like to ask whether any Board member intends to dissent from the proposed Exposure Draft.

Questions for the Board
1. **Permission to ballot.** Is the Board satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?
2. **Dissents.** Does any Board member intend to dissent from the proposals in the Exposure Draft?
3. **Comment period.** Does the Board agree with the staff recommendation to set a comment period of 120 days for the Exposure Draft?

Appendix A—Due process steps taken in the development of the Exposure Draft

Step	Required /Optional	Actions
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	The Board has discussed the project in 14 public meetings between April 2016 and January 2021. Please refer to Appendix B for a list of these meetings. The project page on the IFRS Foundation website contains a full description with up-to-date information. Papers for the meetings were posted before each meeting and a summary of each meeting was included in IASB *Update*.
Consultation with the Trustees of the IFRS Foundation (Trustees) and the IFRS Advisory Council.	Required	The Trustees and the IFRS Advisory Council have received regular updates on the progress of the project as part of the discussion of the Board's activities.
Consultative groups used, if formed.	Optional	The Board decided not to establish a consultative group for the project. See Agenda Paper 31 *Project proposal—moving the project to the standard-setting programme* of the January 2020 Board meeting.
Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.	Optional	Updates about the project were provided in some of the IASB podcasts produced by the IFRS Foundation after each Board meeting. Webcasts are not considered necessary at this stage of the project but would be considered during the comment period.
Online survey to generate evidence in support of or against a particular approach.	Optional	Not considered necessary at this stage of the project but would be considered during the comment period.
Fieldwork is undertaken to analyse proposals.	Optional	Outreach and consultation were undertaken with preparers (4) and users (10) of SME financial statements. The users were primarily banks and financial institutions that are engaged in lending to SMEs.
Outreach meetings with a broad range of	Optional	

Step	Required /Optional	Actions
stakeholders, with special effort to consult investors.		The project was also discussed at public meetings with the Board's consultative bodies, including ASAF, GPF and EEG. Appendix B provides a list of these meetings and topics discussed. Further outreach and research will be performed during the comment period.
Public discussions with representative groups.	Optional	
The Board hosts regional discussion forums, where possible, with national standard-setters.	Optional	
Round-table meetings between external participants and members of the Board.	Optional	
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	A summary analysis of the effects of proposals is included in Appendix E. The staff plan to perform additional work on assessing costs and benefits of the proposed reduced-disclosure IFRS Standard during the comment period.
Finalisation		
Due process steps reviewed by the Board.	Required	This paper asks the Board to review the due process steps taken and whether the Board is satisfied that it has complied with all the applicable requirements.
The exposure draft has an appropriate comment period.	Required	This paper seeks the Board's approval for a comment period of 120 days. Accordingly, no special approval is required from the Due Process Oversight Committee.
Drafting		
Drafting quality assurance steps are adequate: • **Translations Adoption and Copyright team has been involved in the review process;**	Required	The project team plan to ask the Translations Adoption and Copyright team to review a draft of the Exposure Draft.
• **IFRS Taxonomy team has been**	Required	Discussions with the IFRS Taxonomy team have taken place. In addition, the project team plan to

Step	Required /Optional	Actions
included in the review process;		ask the IFRS Taxonomy team to review a draft of the Exposure Draft.
• **Editorial team has been included in the review process;**	Optional	The editorial team will be involved throughout the drafting of the Exposure Draft.
• **external reviewers are used to review drafts for editorial review and the comments collected are considered by the Board;**	Optional	The project team plan to use external reviewers during the balloting process.
• **drafts for editorial review have been made available to members of the International Forum of Accounting Standard-Setters (IFASS) and the comments have been collected and considered by the Board; and**	Optional	A draft of the Exposure Draft will be made available on the IFASS SharePoint site for review.
• **reviewed draft of the Exposure Draft has been posted on the project website.**	Optional	There is no plan to post a reviewed draft of the Exposure Draft on the project website.
Publication		
Exposure Draft published.	Required	The Exposure Draft will be published on the project page of the IFRS Foundation's website and in hardcopy.
Press release to announce publication of the Exposure Draft.	Required	The project team will issue a press release to accompany the publication of the Exposure Draft.
Snapshot document to explain the rationale and basic concepts included in the Exposure Draft.	Optional	A snapshot explaining key elements of the Exposure Draft will be published.

Appendix B—Public meetings of the Board and its consultative bodies

Board meetings

Date	Topic
January 2021	• Disclosure requirements about cash-generating units containing goodwill and intangible assets with indefinite useful lives • Scope of the proposed reduced-disclosure IFRS Standard • Consultation document to publish
December 2020	• Disclosure requirements of IFRS 17 *Insurance Contracts* • Whether to include transition provisions to the proposed reduced-disclosure IFRS Standard • Scope of the proposed reduced-disclosure IFRS Standard
November 2020	• Exceptions to the process for adapting disclosure requirements • When to consider disclosure requirements of new and amended IFRS Standards • Omitted topics including specialised activities
October 2020	• Statement that the reduced disclosure IFRS Standard has been applied • Disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* • Transition provisions of new and amended IFRS Standards • Disclosure requirements on combined financial statements
April 2020	• Project plan • Presentation requirements
January 2020	• Moving the project to the standard-setting programme
December 2019	• Australian Accounting Standards Board's proposed simplified disclosure standard

Date	Topic
November 2019	• Potential benefits for preparers from the project • Scope of the project
October 2019	• Feasibility of adapting the disclosure requirements of the *IFRS for SMEs* Standard for use by subsidiaries that are SMEs that apply the recognition and measurement requirements of IFRS Standards
September 2019	• Research on whether a Standard, if developed, would be adopted and applied
March 2019	• Objective of the project
February 2017	• Status of the project
May 2016	• Whether to add the project to the research programme
April 2016	• Feedback on the *2015 Agenda Consultation*

ASAF meeting

Date	Topic
April 2019	• Feasibility of developing a Standard that would permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards with the disclosure requirements of the *IFRS for SMEs* Standard

GPF meeting

Date	Topic
March 2019	• Feasibility of developing and applying a Standard that would permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards with the disclosure requirements of the *IFRS for SMEs* Standard

EEG meeting

Date	Topic
November 2020	• Project update

Appendix C—Project Background

C1. The Board is undertaking the *Disclosure Initiative—Subsidiaries that are SMEs* project following suggestions, received in response to the Request for Views: *2015 Agenda Consultation*, that the Board permits subsidiaries to apply IFRS Standards with reduced disclosure requirements. Respondents to the Request for Views argued that applying the *IFRS for SMEs* Standard is unattractive because subsidiaries are required to report to their parent, for consolidation purposes, applying the recognition and measurement requirements of IFRS Standards. For their own financial statements, subsidiaries would prefer to use the same recognition and measurement requirements as IFRS Standards, but with less onerous disclosure requirements.

C2. In adding the project to the research programme the Board decided on an approach limited to:

(a) subsidiaries that meet the definition of a small and medium-sized entity (SME) from the *IFRS for SMEs* Standard (a non-publicly accountable subsidiary).

(b) using the disclosure requirements from the *IFRS for SMEs* Standard as the starting point for developing the disclosure requirements in the reduced-disclosure IFRS Standard.

C3. This approach recognises that because this group of subsidiaries is eligible to apply the *IFRS for SMEs* Standard, the Board can be satisfied that the disclosure requirements from the *IFRS for SMEs* Standard are sufficient to meet the needs of users when there is no recognition and measurement difference.

C4. Similarly, when there are recognition and measurement differences, applying the principles in paragraph BC157 of the *IFRS for SMEs* Standard to develop adaptations to the disclosure requirements of the *IFRS for SMEs* Standard, the Board can be satisfied that the disclosure requirements in the reduced-disclosure IFRS Standard would be sufficient to meet user needs.

Appendix D—Summary of the Board's tentative decisions

Tentative decision	When taken
The proposed reduced-disclosure IFRS Standard should include the disclosure requirements set out in paragraphs 134(a)–(c), 134(d)(i), 134(e)(i), 134(e)(iiA), 135(a)–(c) and 136 of IAS 36 *Impairment of Assets*.	January 2021
A subsidiary that is an SME would be eligible to apply the proposed reduced-disclosure IFRS Standard if, at its reporting date, it is a subsidiary of a parent that applies IFRS Standards in its consolidated financial statements; and that the scope should not be limited to single-entity financial statements.	January 2021
Entities issuing insurance contracts within the scope of IFRS 17 *Insurance Contracts* should apply the disclosure requirements of IFRS 17. The Board will seek views on this decision as part of its consultation.	December 2020
The proposed reduced-disclosure IFRS Standard should not propose amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. In addition, transition provisions are not required for the reduced-disclosure IFRS Standard.	December 2020
In the first financial statements in which a subsidiary ceases to apply the reduced-disclosure IFRS Standard and applies IFRS Standards with full disclosures, the reduced-disclosure IFRS Standard will require comparatives for the disclosures not included in the previous years' financial statements.	December 2020

<table>
<tr><th>Tentative decision</th><th>When taken</th></tr>
<tr><td>The proposed reduced-disclosure IFRS Standard may be applied for the ‘first time’ more than once by a reporting entity, for example when a subsidiary moves from a reporting group that prepares its financial statements applying IFRS Standards to a group that does not but which then subsequently adopts IFRS Standards.</td><td>December 2020</td></tr>
<tr><td>The proposed reduced-disclosure IFRS Standard should clearly state that its application is optional and that an entity’s decision to apply the Standard is reversible.</td><td>December 2020</td></tr>
<tr><td>Exceptions to the process for adapting disclosure requirements for a possible reduced-disclosure IFRS Standard would:
(a) exclude the disclosure requirements in paragraphs 19D(b) and 19E–19G of IFRS 12 Disclosure of Interests in Other Entities for investment entities.
(b) require a reconciliation between the opening and closing balances of liabilities arising from financing activities.
(c) require the disclosures recommended in Appendix B of Agenda Paper 31A Exceptions to the process for adapting disclosure requirements of the November 2020 meeting. This lists the disclosure requirements introduced in new and amended IFRS Standards with which the IFRS for SMEs Standard is not currently aligned that Board members recommended should be included in the reduced-disclosure IFRS Standard.
(d) require subsidiaries to apply paragraph 25 of IFRS 6 Exploration for and Evaluation of Mineral Resources.</td><td>November 2020</td></tr>
</table>

Tentative decision	When taken
(e) require subsidiaries to apply paragraphs 20.13(b) and 11.42 of the *IFRS for SMEs* Standard. The Board also decided that it will consider 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. (f) include an expanded version of paragraph 28.41(e) of the *IFRS for SMEs* Standard. (g) exclude disclosure objectives that are in IFRS Standards. (h) for disclosure requirements of the *IFRS for SMEs* Standard not in IFRS Standards: (i) exclude paragraphs 28.41(g) and 15.19(d) of the *IFRS for SMEs* Standard—these are based on disclosure requirements that have been replaced in IFRS Standards; (ii) require subsidiaries to apply an adapted version of paragraph 20.14 of the *IFRS for SMEs* Standard—this is based on a disclosure requirement that has been replaced in IFRS Standards; (iii) include the reliefs in paragraphs 17A and 18A of IAS 24 *Related Party Disclosures*; and (iv) require subsidiaries to apply paragraphs 28.42 and 28.43, and an adapted version of paragraph 3.25 of the *IFRS for SMEs* Standard.	
The consultation document of the proposed reduced-disclosure IFRS Standard should include IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts	November 2020

Tentative decision	When taken
published as at 1 January 2021, except for the Exposure Draft *General Presentation and Disclosures*.	
To maintain the reduced-disclosure IFRS Standard the Board shall consider amendments to the Standard when the Board publishes an exposure draft of a new or amended IFRS Standard.	November 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary applying the Standard that chooses to disclose earnings per share to apply the disclosure requirements of IAS 33 *Earnings per Share*.	November 2020
The proposed reduced-disclosure IFRS Standard should include an adapted version of IAS 34 *Interim Financial Reporting* disclosure requirements.	November 2020
The proposed reduced-disclosure IFRS Standard should require a subsidiary to disclose dividends paid in interim financial reports and annual financial statements where there is more than one class of share capital.	November 2020
The proposed reduced-disclosure IFRS Standard should include disclosure requirements derived from applying paragraph BC157 of the *IFRS for SMEs* Standard for regulatory deferral account balances.	November 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary to disclose that it has applied the reduced disclosure IFRS Standard, and require this disclosure to be located with the compliance statement required by paragraph 16 of IAS 1 *Presentation of Financial Statements*.	October 2020

Tentative decision	When taken
The proposed reduced-disclosure IFRS Standard will require a subsidiary to apply all of the disclosure requirements of IAS 8 *Accounting Polices, Changes in Accounting Estimates and Errors*.	October 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary to apply the disclosure requirements about transition provisions that are included in other IFRS Standards, subject to any modification to those disclosure requirements the Board considers appropriate for subsidiaries.	October 2020
The proposed reduced-disclosure IFRS Standard will not include disclosure requirements for combined financial statements.	October 2020
The Board will consider the scope of the project only after the completion of most of the analysis of whether adaptations to the disclosure requirements of the *IFRS for SMEs* Standard are required.	November 2019
The presentation requirements of IFRS Standards, not of the *IFRS for SMEs* Standard, shall be applied by subsidiaries that are SMEs that elect to apply the IFRS Standard being developed in this project.	April 2020
When considering whether to adapt the disclosure requirements of the *IFRS for SMEs* Standard: (a) if there is no recognition and measurement difference – no change* to the disclosure requirements; (b) if there is a recognition and measurement difference – consider the principles in BC157 of the *IFRS for*	October 2019

Tentative decision	When taken
SMEs Standard and adapt the disclosure requirements if supported by one of the principles. * For the avoidance of doubt, there will be no change even if a disclosure requirement was added to an IFRS Standard since the *IFRS for SMEs* Standard was developed.	

Appendix E—Summary analysis of the expected effects

E1. The proposed reduced-disclosure IFRS Standard will permit entities within its scope to apply IFRS Standards with reduced disclosures. The approach taken in the project, ensures the Board can be satisfied that the suggested disclosure requirements are sufficient to meet the needs of users. The analysis of the possible cost and benefits (effects) of the proposed reduced-disclosure IFRS Standard is, consequently, anchored on the approach the Board has taken.

E2. This appendix provides a summary of the likely effects of the proposed reduced-disclosure IFRS Standard.

Effects on preparers

E3. The project was added to the Board's work plan in response to demand from preparers; it aims to reduce the costs of preparing financial statements for subsidiaries within the scope of the Exposure Draft. At present, subsidiaries that are required to report to a parent entity applying IFRS Standards are required to maintain separate accounting records when, in its own financial statements, it applies either the *IFRS for SMEs* Standard or a national GAAP that had different recognition and measurement requirements to IFRS Standards. This project seeks to reduce costs by eliminating the need to maintain these separate accounting records.

E4. New (or amended) IFRS Standards, which change financial reporting requirements, entail costs that are justified by the benefits of the (better) information they provide. The proposed reduced-disclosure IFRS Standard will reduce costs as it is not changing recognition and measurement requirements but providing subsidiaries within its scope the option to provide fewer disclosures tailored for their users' needs.

E5. Application of the proposed reduced-disclosure IFRS Standard is optional. A preparer electing to apply this Standard will, therefore, satisfy itself the benefits of opting to apply the Standard outweigh the costs.

E6. The first-time implementation costs of applying the reduced-disclosure IFRS Standard will vary depending on whether the subsidiaries' financial statements are prepared applying:

(a) national GAAP (paragraph E7);

(b) the *IFRS for SMEs* Standard (paragraph E8); or

(c) IFRS Standards (paragraph E9).

E7. The first-time implementation costs incurred by a subsidiary that applies a national GAAP in its own financial statements and elects to apply the reduced-disclosure IFRS Standard will depend on the differences between the national GAAP and IFRS Standards. The benefits are expected to outweigh the implementation costs as the subsidiary is no longer required to maintain separate accounting records for the differences between national GAAP and IFRS Standards. That is, efficiencies should arise when the parent and the subsidiary apply the same reporting standards.

E8. A subsidiary that applies the *IFRS for SMEs* Standard in its own financial statements and elects to apply the reduced-disclosure IFRS Standard would incur first-time implementation costs because of the recognition and measurement differences between IFRS Standards and the *IFRS for SMEs* Standard, and some differences in the disclosure requirements between the reduced-disclosure IFRS Standard and the *IFRS for SMEs* Standard. These costs are, similarly, expected to be outweighed by the benefits of the subsidiary not being required to maintain separate accounting records for the differences between the *IFRS for SMEs* Standard and IFRS Standards.

E9. A subsidiary that applies IFRS Standards in its own financial statements and elects to apply the reduced-disclosure IFRS Standard will benefit from significantly less disclosure requirements. A subsidiary could incur some first-time implementation costs (for example, identifying which disclosures are no longer required). These potential costs would be outweighed by the expected benefits of not having to produce the disclosures that it would otherwise be required to provide, including the associated operational costs a subsidiary would save from not monitoring such disclosures.

E10. The Board's project approach should ensure the disclosure requirements in the proposed reduced-disclosure IFRS Standard are sufficient to meet the needs of users. In the circumstances described in paragraphs E7–E9, if a parent requires other information not otherwise required by the proposed reduced-disclosure IFRS Standard, the subsidiary would not entail significant *incremental* cost because it would be required to provide such information regardless of the accounting standards applied.

Effects on users and other stakeholders

E11. The approach taken in developing the disclosure requirements is such that no useful information is lost; by considering paragraph BC157 of the *IFRS for SMEs* Standard in adapting the disclosure requirements, user needs have been taken into account. As such, although some information omitted could be broadly useful, it may not be relevant given the nature of the users (see paragraph 2.4 of the *Conceptual Framework for Financial Reporting*).

E12. Other observations for users and other stakeholders are:

(a) lenders and other creditors to a subsidiary can demand information in addition to the information in the financial statements of the subsidiary, including parent company guarantees. This applies equally if financial statements are prepared applying IFRS Standards with full disclosures, the *IFRS for SMEs* Standard or a national GAAP.

(b) education and translation costs will be incurred in implementing the reduced-disclosure IFRS Standard. This is inherent with any new standard adopted (or amended). But in the long term, these costs would be justified by the benefits.

(c) audit costs (in terms of resources, effort and time spent by auditors) will be reduced. First, because of the reduced volume of disclosures that need auditing. Second, the auditor could leverage on the work performed for the statutory audit (eg reporting of the subsidiary in its own financial statements) and group reporting (eg reporting to the parent company).

Overall assessment

E13. Based on paragraphs E3–E12, the benefits of the proposed reduced-disclosure IFRS Standard should outweigh the costs of applying it. The staff plan to perform additional work on assessing costs and benefits of the proposed reduced-disclosure IFRS Standard during the comment period.