IFRS

STAFF PAPER

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IASB® meeting

Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Paper topic	Feedback from outreach events

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Purpose of this paper

1. This paper analyses the feedback from outreach events on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft). The Exposure Draft sets out a proposal for a new IFRS Accounting Standard (draft Standard) that would permit an eligible subsidiary to apply reduced disclosure requirements when applying IFRS Accounting Standards.

2. The International Accounting Standards Board (IASB) will not be asked to make any decisions at this meeting. This paper is intended for discussion only.

Overall feedback

3. Many outreach participants agreed with the objective of the draft Standard and said that the proposals, if implemented, will reduce the costs and complexity of financial reporting for eligible subsidiaries. Some participants said that the benefits could extend to the parent and the group.

4. Outreach participants had mixed views on the proposed scope of the draft Standard. Many of those participants that disagreed with the proposed scope suggested widening the scope to allow more entities to apply the draft Standard. However, participants had different views on how the scope should be widened.

5. In addition to comments on the scope, participants (both those supporting and those not supporting the proposed scope) raised concerns about how to adopt the draft Standard into a jurisdiction's financial reporting framework.

6. Many participants agreed that the approach applied to develop the disclosure requirements in the draft Standard would maintain the usefulness of eligible subsidiaries' financial statements. Some participants expressed concerns on the suitability of starting with the *IFRS for SMEs* Accounting Standard.

7. With regards to other aspects of the draft Standard:
   (a) there are mixed views on the structure of the draft Standard. Many participants agreed with disclosure requirements being organised by Standard. However, some participants said that the footnotes, which identify disclosure requirements in other IFRS Accounting Standards that remain applicable, make the draft Standard difficult to apply.
   (b) most participants agreed with the proposed requirements on providing comparative information and the interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Structure of the paper

8. The paper is structured as follows:
   (a) structure of outreach events (paragraphs 9–10);
   (b) feedback on the objective and scope of the draft Standard (paragraphs 11–22);
   (c) feedback on how the proposed disclosure requirements were developed (paragraphs 23–25);
   (d) feedback on the structure and application of the draft Standard (paragraphs 26–35); and
   (e) Appendix A—analysis of outreach events by geographical distribution and type.

Structure of outreach events

9. The staff, together with some IASB members, engaged in 24 outreach events with various types of stakeholders (see Appendix A). Topics discussed in outreach events were organised as follows:
   (a) objective and scope of the draft Standard, including assessing the costs and benefits of the proposals;
   (b) how disclosure requirements are developed; and
   (c) application and structure of the draft Standard.
10. Outreach participants were encouraged to provide comments and engage with IASB members and the staff. In addition, in many of the outreach events, a polling function was made available to obtain participants' views.

Feedback on objective and scope of the draft Standard

Objective and cost–benefit assessment

11. Many participants agreed with the objective of the draft Standard and that the proposals will reduce the costs and complexity of financial reporting of eligible subsidiaries. Other benefits identified by participants:
    (a) would eliminate the need to maintain another set of accounting records;
    (b) conglomerates with local and overseas subsidiaries could align their accounting policies which could reduce the costs of group reporting;
    (c) the risk of errors caused by adjustments to reconcile a subsidiary's own accounting records and accounting records used for consolidation purposes would be reduced; and
    (d) the proposals could lead to wider application of IFRS Accounting Standards.
12. Some participants noted that the benefits of the proposals (particularly paragraphs 11(a)–(c)) would be greatest for subsidiaries applying a reporting framework other than IFRS Accounting Standards. Some participants observed that for subsidiaries already applying IFRS Accounting Standards, the benefits might be limited. This is because, depending on how significant the subsidiary is to the group,

the subsidiary may still need to provide all IFRS Accounting Standards disclosure requirements to the parent for consolidation purposes.

13. Some participants said they are concerned that the benefits of the proposals may not justify the loss of information for users of subsidiaries' financial statements, particularly for subsidiaries that currently apply IFRS Accounting Standards.

14. Some participants said that in jurisdictions where the local GAAP is aligned with tax laws and legislation, the benefits of adoption of the draft Standard are reduced.

15. Participants also made observations on how adoption of the draft Standard would interact with its local regulation:

    (a) many participants said that adoption of the draft Standard by a jurisdiction would depend on the jurisdiction's financial reporting framework and its IFRS endorsement process.

        (i) Some jurisdictions:

            1. have a formal adoption process where an IFRS Accounting Standard must be endorsed by an endorsement body (for example, Europe); or

            2. adopt IFRS Accounting Standards as they are issued by the IASB (for example, South Africa).

        (ii) Some participants noted that their financial reporting framework includes a defined term 'public interest entity' (PIE), which shares some similarities with the term 'public accountability' described in the draft Standard. For example, a participant explained that in their jurisdiction a PIE is required to apply 'full' IFRS Accounting Standards. However, a subsidiary that is a PIE could nevertheless satisfy the proposed scope criteria of the draft Standard.

    (b) some jurisdictions have carved out some Standards or part(s) of a Standard in adopting IFRS Accounting Standards. For example, a few participants noted that IFRS 14 *Regulatory Deferral Accounts* was not adopted in their jurisdiction. However, the draft Standard includes reduced disclosure requirements for IFRS 14. In these instances, such jurisdictions might need to carve-out some of the disclosure requirements in the draft Standard to fit it in their financial reporting framework.

16. Other comments on the objective of the draft Standard during outreach events:

    (a) concerns that the draft Standard would constitute a third framework (or third tier) in addition to IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard.

    (b) concerns that preparers and users might be confused because eligible subsidiaries could choose between two versions of IFRS Accounting Standards— full-disclosure or reduced-disclosure—and that this would lead to lack of comparability between entities without public accountability.

    (c) permitting push-down accounting in the subsidiary's financial statements would also eliminate the need to maintain another set of accounting records as an alternative to the draft Standard.

    (d) how non-adoption of the draft Standard would be reflected in IFRS jurisdiction profiles.

Proposed scope

17. Participants expressed mixed views on the scope of the draft Standard. Those participants that disagreed with the proposed scope suggested a wider scope.

18. Of the participants who agreed with the proposed scope:

    (a) some observed that the draft Standard proposes a new approach and the IASB is right to be cautious about permitting subsidiaries to apply it. Testing the approach on eligible subsidiaries first is appropriate.

    (b) some observed that widening the scope could be considered as part of a future review after the Standard has been implemented.

19. Participants supporting a wider scope expressed the following different views on which other entities should be permitted to apply the draft Standard:

    (a) *all* entities without public accountability (all entities that are SMEs);

    (b) *some* entities without public accountability such as joint ventures and associates;

    (c) subsidiaries without public accountability *regardless* of the GAAP applied by their parent; or

(d) an entity that is a subsidiary during the year even if it is no longer a subsidiary at year-end.

20. A few participants, specifically standard-setters in Asia, asserted that local regulators are in a better position to determine the scope of the draft Standard. One participant disagreed with the 'optional' nature of the draft Standard.

21. One participant noted that, in their jurisdiction, subsidiaries of regulated entities are required to prepare financial statements that comply with 'full' IFRS Accounting Standards. This participant noted that the operational activities are usually undertaken by subsidiaries and the parent, in many instances, is a holding company. Hence, there is a requirement for subsidiaries to prepare financial statements that comply with 'full' IFRS Accounting Standards.

22. Some participants sought guidance on the scope paragraphs of the draft Standard including:

    (a) guidance on 'public accountability':

        (i) guidance about 'public market'. Some participants noted that companies raise funds in alternative markets apart from the traditional public market (stock exchange). For example, crowdfunding and peer-to-peer financing. These participants think these alternative markets should be considered as a public market.

        (ii) guidance about 'fiduciary capacity'. Some participants asked for guidance on what constitutes a 'broad group of outsiders' or 'primary business', and also whether an intermediate parent considers the business of its subsidiary when assessing the criteria.

    (b) guidance on when financial statements are 'available for public use'. Some participants noted that the term is already used in IFRS Accounting Standards. These participants noted that additional clarification should be provided because the term is fundamental to the scope criteria.

    (c) whether branches, which may be required to prepare financial statements in some jurisdictions, would be eligible to apply the draft Standard.

Feedback on how the proposed disclosure requirements were developed

23. Many participants agreed with the approach to developing the disclosure requirements. A few participants described it as logical to use the disclosure requirements in the *IFRS for SMEs* Accounting Standard as a starting point as they are already developed from IFRS Accounting Standards. These participants agreed that the usefulness of subsidiaries' financial statements would be maintained.

24. While not disagreeing with the approach, some respondents raised concerns on other aspects of the approach:

    (a) the language in the *IFRS for SMEs* Accounting Standard is not aligned with IFRS Accounting Standards. These participants suggested that if a disclosure requirement in the draft Standard (that is based on the *IFRS for SMEs* Accounting Standard) is the same as in IFRS Accounting Standards, the language in IFRS Accounting Standards should be used (ie verbatim) to prevent confusion or different application of those requirements.

    (b) interaction of the draft Standard with the IASB's Targeted-Standard Level Review (TSLR) project. Some participants noted that both projects are under the IASB's *Disclosure Initiative* but follow a different approach to disclosures—the draft Standard being a prescriptive, checklist-based approach and TSLR project being an objective-based approach.

    (c) the rationale for the exceptions made by the IASB to the approach in the draft Standard are not clearly explained in the Basis for Conclusions. These respondents asked that such explanations be improved.

    (d) the information needs of users of the financial statements of a wholly-owned subsidiary are different from that of a majority-owned subsidiary. These respondents noted that some of the disclosure requirements are excessive if the eligible subsidiary is wholly-owned (no non-controlling shareholders).

25. Some participants disagreed with the approach to developing the disclosure requirements and noted that the starting point should be IFRS Accounting Standards. Some of these participants believed that subsidiaries without public accountability are different from entities within the scope of the *IFRS for SMEs* Accounting Standard (entities without public accountability) because they already provide IFRS information for group reporting purposes. The staff noted that some of these

participants are not familiar that the *IFRS for SMEs* Accounting Standard was based on from IFRS Accounting Standards.

Feedback on structure and application of the draft Standard

Structure

26. The draft Standard is structured as follows:

    (a) the main body that sets out disclosure requirements by Standard and includes footnotes that list requirements in other IFRS Accounting Standards that remain applicable; and

    (b) Appendix A lists disclosure requirements in other IFRS Accounting Standards that are replaced by the draft Standard.

27. Most participants agreed with the proposal to have a separate IFRS Accounting Standard and to organise the disclosure requirements by Standard. However, some participants thought such an approach was confusing because to understand the requirements of the draft Standard, a subsidiary needs to look at three different sections—the main body, other IFRS Accounting Standards (for references in the footnotes) and Appendix A. In particular:

    (a) many participants had reservations about the footnotes. Some said including requirements in a footnote implies that they are unimportant and preparers might ignore them. Some suggested that these requirements should be included within their respective disclosure sections in the main body of the draft Standard.

    (b) some participants find Appendix A helpful. However, some participants suggest that these requirements should instead be listed within their respective disclosure sections in the main body of the draft Standard.

Application

28. Many participants provided comments on the following matters about the practical aspects of the draft Standard:

    (a) comparative information;

    (b) statement of compliance with IFRS Accounting Standards;

    (c) interaction with IFRS 1;

    (d) disclosure requirements of IFRS 17;

    (e) when additional disclosures are required (applying paragraph 16 of the draft Standard); and

    (f) maintenance of the draft Standard.

29. Most participants agreed with the proposed requirements in the draft Standard on providing comparative information. However, some participants said it would be helpful if the IASB clarified in the draft Standard that electing or revoking the election to apply the draft Standard would not require the application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as noted in paragraphs BC82–BC83 of the Basis for Conclusions on the Exposure Draft).

30. Some participants said that the requirement for a subsidiary to disclose it has applied the draft Standard (paragraph 22 of the draft Standard) is inconsistent with the required statement of compliance with IFRS Accounting Standards (paragraph 110 of the draft Standard). These participants noted that a subsidiary cannot assert compliance with IFRS Accounting Standards if it does not apply all the disclosure requirements in IFRS Accounting Standards.

31. Most participants agreed with the interaction of the draft Standard with IFRS 1.

32. Many participants agreed with requiring the disclosure requirements in IFRS 17 *Insurance Contracts* if a subsidiary issues insurance contracts within the scope of that Standard. A few participants suggest that the IASB allow insurance entities that have public accountability to apply the draft Standard but require the disclosure

requirements of IFRS 17 in full. In these participants' view insurance entities generally do not hold assets in a fiduciary capacity. [1]

33. Some participants asked for further guidance on applying paragraph 16 of the draft Standard, particularly regarding when additional disclosures would be required. A few participants suggested that the principles in paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard, could be included in the body of the draft Standard to provide guidance on factors to consider in deciding when additional information needs to be disclosed (these principles were used by the IASB in tailoring the disclosure requirements in the draft Standard).

34. Some participants said that the proposed disclosure requirements should be reduced further. For example, disclosures for hedging accounting and derivatives, acquisition of a business and share-based payments.

35. Many participants agreed with the IASB's plan for maintaining the draft Standard.

Question for the IASB

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Does the IASB have any questions or comments on the feedback discussed in this paper?

[1] This is similarly noted in comment letter [22 *German Insurance Association*] and comment letter [53 *Accounting Standards Committee of Germany*].

Appendix—Analysis of outreach events by type and geographical distribution

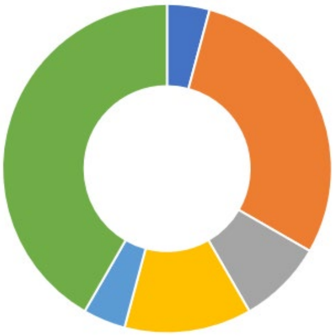
Table 1—Outreach events conducted

Number	Outreach Event	Type	Geography
1	IFRS Foundation Conference	Various	Global
2	EFRAG User Panel	Users	Europe
3	SME Implementation Group	Various	Global
4	The Quoted Companies Alliance	Preparer	Europe
5	World Standard-setters	Standard-setter	Global
6	Accountancy Europe	Various	Europe
7	Joint outreach with EFRAG, the Confederation of Danish Industry and FSR – Danish Auditors	Various	Europe
8	Deloitte Touche Tohmatsu Limited	Auditor	Global
9	Malaysian Accounting Standards Board and Institute of Chartered Accountants of India	Various	Asia
10	Institute of Chartered Accountants of Pakistan	Various	Asia
11	Pan African Federation of Accountants *(outreach held in French)*	Various	Africa
12	Global Preparers Forum	Preparer	Global
13	Asian-Oceanian Standard-Setters Group	Standard-setter	Asia
14	South African Institute of Chartered Accountants	Various	Africa
15	Group of Latin American Accounting Standard Setters (GLASS) *(outreach held in Spanish)*	Standard-setter	Americas
16	Comitê de Pronunciamentos Contábeis (CPC) *(outreach held in Portuguese)*	Standard-setter	Americas
17	ABRASCA—Brazilian Association of Publicly Held Companies *(outreach held in Portuguese)*	Preparer	Americas
18	Jeju Group (joint outreach with JICPA, KICPA and ISCA)	Various	Asia
19	Emerging Economies Group	Standard-setter	Global
20	Joint outreach with ABRASCA and CPC *(outreach held in English)*	Various	Americas
21	European Securities and Markets Authority	Regulator	Europe
22	GLASS *(outreach held in English)*	Standard-setter	Americas
23	Accounting Standards Advisory Forum	Standard-setter	Global
24	EU Commission Staff	Regulator	Europe

Diagram 1—Analysis of outreach events by geographical distribution

Geographical Region	Respondents Number	Respondents Percentage
Africa	2	8%
Americas	5	21%
Asia and Oceania	4	17%
Europe	6	25%
Global	7	29%
Total	**24**	**100%**

Diagram 2—Analysis of outreach events by type



Type of respondents	Respondents Number	Respondents Percentage
Accountants and auditors	1	4%
Standard-setter	7	29%
Regulator	2	8%
Preparer	3	13%
User	1	4%
Various	10	42%
Total	**24**	**100%**