IFRS

# STAFF PAPER

May 2022

**IASB® Meeting**

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| **Project** | **Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures** |
| Paper topic | Proposed scope of the draft Standard |

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## Introduction

1. The Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) sets out the International Accounting Standards Board (IASB) 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. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard—entities that do not have public accountability (as defined in paragraph 9 of this paper) and that publish general purpose financial statements for external users.

## Purpose of the paper

3. The purpose of this paper is to ask the IASB to:

   (a) consider feedback on the scope of the draft Standard (Question 2 of the Invitation to Comment on the Exposure Draft); and

   (b) discuss whether the proposed scope of the draft Standard is appropriate for the purposes of finalising the draft Standard.

4. This paper should be read together with Agenda Paper 30B *Towards an exposure draft—definition of public accountability* of this meeting, which discusses the comments raised about the description of public accountability in the draft Standard. The papers of this meeting do not consider how to address:

   (a) issues about local endorsement processes for the draft Standard and the interaction with local laws and regulations in different jurisdictions; and

   (b) issues relating to a subsidiary’s transition to and from the draft Standard, including comments on application of the draft Standard by a subsidiary during the year even if it is no longer a subsidiary at the end of the reporting period.

   The staff will ask the IASB to consider these issues at a future IASB meeting.

## Summary of staff recommendations

5. In this paper, the staff recommend that, if the IASB decides to proceed to finalise the draft Standard, it should:

   (a) finalise the draft Standard with the scope as proposed in the Exposure Draft; and

   (b) commit to review the scope of the draft Standard as part of the post-implementation review of the Standard.

6. In Agenda Paper 30B of this meeting, the staff recommend the IASB should clarify the definition of public accountability in the *IFRS for SMEs* Accounting Standard. Agenda Paper 30B of this meeting also includes the following recommendations if the IASB decides to proceed to finalise the draft Standard:

   (a) clarifying amendments to the draft Standard to assist understanding of the definition of public accountability and avoid specifying how often the entities listed in paragraph 7(b) of the draft Standard hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses;

(b) clarifying amendments to the draft Standard that an intermediate parent assesses its eligibility to use the draft Standard in its separate financial statements on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability; and

(c) making the guidance on public accountability in Module 1 *Small and Medium-sized Entities* (the educational material on Section 1 of the *IFRS for SMEs* Accounting Standard) available on the IFRS Foundation website as guidance supporting the draft Standard.

## Structure of the paper

7. This paper is structured as follows:

(a) proposed scope of the draft Standard (paragraphs 8–10 of this paper);

(b) feedback on the Exposure Draft (paragraphs 11–30 of this paper);

(c) staff analysis (paragraphs 31–49 of this paper);

(d) staff recommendation and possible next steps (paragraphs 50–52 of this paper);

(e) question for the IASB;

(f) Appendices:

A—Extract from the Basis for Conclusions on the Exposure Draft—scope of the draft Standard; and

B—Alternative view on the Exposure Draft.

## Proposed scope of the draft Standard[1]

8. The Exposure Draft proposes 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 (as defined in Appendix A of IFRS 10 *Consolidated Financial Statements*);

   (b) does not have public accountability (see paragraph 9 of this paper); and

   (c) has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

9. The *IFRS for SMEs* Accounting Standard states that an entity has public accountability if:[2]

   (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).

10. Paragraphs BC12–BC22 of the Basis for Conclusions on the Exposure Draft (reproduced in Appendix A to this paper) set out the IASB's rationale in setting the scope as eligible subsidiaries (those meeting the criteria in paragraph 8 of this paper). One IASB member held the alternative view that all entities without public accountability should be eligible to apply the draft Standard, and this is set out in

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[1] Paragraphs 6–7 of the draft Standard.

[2] Paragraph 1.3 of the *IFRS for SMEs* Accounting Standard and reproduced in paragraph 7 of the draft Standard.

paragraphs AV1–AV8 at the end of the Basis for Conclusions on the Exposure Draft (reproduced in Appendix B to this paper).

## Feedback on the Exposure Draft[3]

### *Overall feedback*

11. There were mixed views on the proposed scope of the draft Standard. Many respondents suggested widening the scope to allow more entities to apply the proposals. However, they had different views on how the scope should be widened. Some respondents agreed with the proposed scope but suggested the IASB considers widening the scope at a later stage, for example, after the draft Standard has been implemented.

### *Feedback from the comment letters*

12. Some respondents agreed with the proposed scope. These respondents noted that the draft Standard proposes a new approach to reduce disclosures in IFRS Accounting Standards and agreed that the IASB is rightfully cautious in determining who should be permitted to apply the draft Standard.

13. Some of the respondents who agreed with the proposed scope suggested that the IASB could consider widening the scope after the draft Standard has been implemented for a period of time. A respondent suggested that, in parallel with the finalisation of the draft Standard, the IASB could assess the possibility of widening the scope at a later date to include other types of entities.

14. Many respondents disagreed with the proposed scope in the draft Standard. Of those who disagreed:

[3] See also Agenda Paper 31A *Feedback from comment letters* and Agenda Paper 31B *Feedback from outreach events* (April 2022 IASB meeting papers).

(a) most suggested widening the scope (see paragraphs 15–17 of this paper);

(b) a few suggested a narrower scope (see paragraph 18 of this paper); and

(c) a few observed that the regulator should determine who could apply the draft Standard (see paragraph 19 of this paper).

15. Respondents who suggested widening the scope expressed a variety of views on how the scope should be widened. Some suggested to widen the scope of the draft Standard to:

(a) *all* entities without public accountability (all entities that are SMEs). These respondents noted that the approach applied by the IASB in developing the disclosure requirements is relevant to all entities without public accountability. These respondents agreed with the alternative view on the Exposure Draft.

(b) joint ventures and associates without public accountability. These respondents said that these entities may need to maintain additional accounting records if they report to an investor that applies IFRS Accounting Standards.

(c) subsidiaries without public accountability *regardless* of the GAAP applied in the parent's consolidated financial statements.

(d) the ultimate parent's separate financial statements. Some respondents said that, in some jurisdictions, the reduced-disclosure framework permits application in the ultimate parent's separate financial statements.

(e) some financial institutions, including insurance entities and banks. Some of these respondents (particularly those in the insurance industry):

(i) disagreed with the statement in paragraph 7(b) of the draft Standard that most insurers hold assets in a fiduciary capacity. They assert that many insurers are not managing assets on behalf of policy holders.

(ii) said that unless the insurance entity is listed in a capital market, the insurer should be permitted to apply the draft Standard.

16. The Institute of Certified Public Accountants of Cyprus said:

> We have some concerns on the narrowly defined scope of the ED. Though we fully agree on the public accountability criterion, we are not convinced that the Board's proposal to limit the applicability to subsidiaries would help in fully achieving the objective of this project. As noted in the Basis for Conclusions, the Board developed the proposed disclosure requirements following an approach relevant for all entities without public accountability, hence without taking into account any characteristics of a subsidiary. The standard is associated with cost savings, dismissing any unnecessary disclosures and thus no entity should be restricted in its use.

17. The German Insurance Association (GDV) said:

> … We would find it fully inappropriate to generally exclude the insurance industry from the scope of the proposed new IFRS Standard. We believe that insurance undertakings being subsidiaries should be in the scope of the new regular IFRS if not listed on a capital market. And irrespective of the potential reliefs regarding IFRS 17, not listed insurance subsidiaries should be eligible to benefit from the reduced set of disclosure requirements regarding the other IFRS Standards to ensure level playing field with other industries.

18. A few respondents (mainly regulators) suggested a narrower scope:

(a) exclude those subsidiaries who are required to submit their financial statements to regulators applying IFRS Accounting Standards. It was noted that in some jurisdictions all entities within a group (parent and its subsidiaries) must file financial statements in accordance with IFRS Accounting Standards.

(b) exclude those subsidiaries who are currently applying IFRS Accounting Standards. The respondent noted that subsidiaries moving from the disclosures in IFRS Accounting Standards to the draft Standard would not enhance transparency and is therefore undesirable.

19. A few respondents (standard-setters in Asia) noted that local regulators are in a better position to determine the scope of the draft Standard. In their view:

(a) the IASB does not have authority to determine who must, should or could prepare financial statements applying IFRS Accounting Standards. The respondent attributed this statement to paragraph BC3.13 of the Basis for Conclusions on the *Conceptual Framework for Financial Reporting*.[4]

(b) the proposed scope in the draft Standard may be inconsistent with how IFRS Accounting Standards is adopted and enforced in different jurisdictions.

20. In responding to the Invitation to Comment, some respondents questioned how the draft Standard would interact with their local regulations. Many jurisdictions define 'public interest entity', a term that shares some similarities with 'public accountability'. However, different jurisdictions define this term differently.

21. The Institute of Chartered Accountants of Pakistan said:

> In Pakistan, under the corporate law (i.e. the Companies Act, 2017) a differential financial reporting framework has been set. Differential financial reporting framework is prescribed based on the size (capital, assets thresholds etc.) of the entities. The framework includes IFRS Standards (applicable for listed, other public interest entities, large-sized companies and subsidiaries of listed companies), IFRS for SMEs (applicable for medium-sized companies) and a separate Accounting standard for small-sized companies. Importantly, the subsidiaries of listed entities (irrespective of their size) are required to prepare their separate financial statements in accordance with IFRS Standards.

22. The European Financial Reporting Advisory Group (EFRAG) said:

> … National Standard-Setters have expressed concerns that the notion of public accountability is different from the notion of Public Interest Entities, a similar term used in the European Union accounting law. Therefore, the IASB's proposals in this project are likely to also put pressure on the definition of 'public accountability'. ...

[4] Paragraph BC3.13 of the Basis for Conclusions on the *Conceptual Framework for Financial Reporting states* 'The 2018 Conceptual Framework provides a general description of a reporting entity, rather than stating who must, should or could prepare general purpose financial statements. The Board has no authority to determine who must, should or could prepare such statements'.

23. Some respondents also sought further guidance on:

(a) the description of ‘public accountability’. These comments are further detailed in Agenda Paper 30B of this meeting.

(b) when financial statements are ‘available for public use’. Some respondents noted that the term is already used in several IFRS Accounting Standards. These respondents said that the term is fundamental to the scope criteria and suggested that additional clarification be provided.

24. Other comments on the scope include:

(a) the IASB should consider requiring that non-controlling shareholders are informed about, and do not object to, a partially owned subsidiary applying the draft Standard (similar to paragraph 4(a)(i) of IFRS 10 *Consolidated Financial Statements*); and

(b) in jurisdictions where the *IFRS for SMEs* Accounting Standard is not applied, the draft Standard could enhance comparability among entities without public accountability, for example where these are applying different local GAAPs.

### *Feedback from outreach events*

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

26. 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 review after the Standard has been implemented.

27. 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) branches of entities that are required to prepare financial statements.

28. 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.

29. One participant noted that, in their jurisdiction, subsidiaries of regulated entities are required to prepare financial statements that comply with 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 IFRS Accounting Standards.

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

    (a) guidance on ‘public accountability’. These comments are further detailed in Agenda Paper 30B of this meeting.

    (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.

## Staff analysis

31. The staff analysis is set out as follows:

    (a) whether the scope should be widened to include:

        (i) some or all other entities without public accountability, ie other SMEs (see paragraphs 32–38 of this paper);

        (ii) subsidiaries that are financial institutions (see paragraphs 39–42 of this paper);

    (b) whether regulators should set the scope (see paragraphs 43–44 of this paper);

    (c) whether the scope should be narrower (see paragraphs 45–47 of this paper);

    (d) clarification of the definition of public accountability (see paragraph 48 of this paper); and

    (e) guidance on when financial statements are 'available for public use' (see paragraph 49 of this paper).

### *Should the scope be widened to include some or all other entities without public accountability, ie other SMEs?*

32. 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 those subsidiaries whose parent prepares consolidated financial statements applying IFRS Accounting Standards.

33. The draft Standard was developed to address cost–benefit considerations for a subset of entities without public accountability (ie a subset of SMEs) arising from their particular circumstances—namely subsidiaries that must report to their parent applying IFRS Accounting Standards, but the users of the subsidiaries' own financial statements do not need the full disclosures required by IFRS Accounting Standards. These subsidiaries often have access to the group's

resources and receive support in their application of IFRS Accounting Standards, which alleviates strain on their resources and helps them stay up to date with the ongoing changes to IFRS Accounting Standards.

34. In contrast, the staff think that the draft Standard may not be suitable for:

(a) an SME that *elects* to apply IFRS Accounting 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 the recognition and measurement principles in IFRS Accounting Standards is important to an SME's users, then disclosures required by IFRS Accounting Standards are likely to be equally important.

(b) other SMEs that do not need to report to a parent applying IFRS Accounting Standards. Applying the draft Standard may be more costly than applying the *IFRS for SMEs* Accounting Standard for these SMEs as the *IFRS for SMEs* Accounting 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 Accounting Standards. Furthermore, amendments to the *IFRS for SMEs* Accounting Standard are not expected to be more frequent than once every three years to provide SMEs with a stable platform. Unlike subsidiaries, other SMEs may not have the resources to stay up to date with the ongoing changes to IFRS Accounting Standards.

(c) SMEs that are associates or joint ventures of an investor applying IFRS Accounting 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 Accounting Standards.[5] Furthermore, without a

[5] This statement is supported by feedback from stakeholders on the application questions in the IASB's Equity Method project, which indicated that the investor may not have the ability to require the investee to provide the necessary information to comply with the requirements in paragraphs 33–35 of IAS 28 (when the investor has a different reporting date from the investee or uses different accounting policies).

controlling relationship, these entities may not know if they are an equity accounted investment of an investor applying IFRS Accounting Standards. An entity could be an associate or joint venture of more than one investor, making it difficult to determine which investor to consider when applying the proposed scope criterion in paragraph 8(c) of this paper. For these reasons, applying the draft Standard rather than the *IFRS for SMEs* Accounting Standard could be more costly for these SMEs as explained in (b).

35. Nevertheless, feedback indicates that many respondents support widening the scope to include some other or all SMEs. The IASB's approach in developing the draft Standard was to eliminate disclosure requirements not intended for users of SME financial statements (discussed in more detail in Agenda Paper 31 *Cover Paper* of this meeting). Therefore, to some respondents, it may appear to be a straight-forward decision to widen the scope of the draft Standard to other SMEs.

36. The staff agree there would be benefits from widening the scope to include other SMEs, as discussed in paragraph BC15 of the Basis for Conclusions on the Exposure Draft. For example, in a jurisdiction that has not adopted the *IFRS for SMEs* Accounting Standard, application of the draft Standard could reduce costs for SMEs applying IFRS Accounting Standards, or it could improve an SME's cost of capital if it is applying local GAAP. Furthermore, respondents made the following suggestions, which are not addressed by paragraph 34(a)–(c) of this paper, for which the draft Standard may be an attractive option:

(a) subsidiaries without public accountability *regardless* of the GAAP applied in the parent's consolidated financial statements; and

(b) ultimate parent's separate financial statements.

37. Nevertheless, the staff think widening the scope is a sensitive topic, which would take time for the IASB to redeliberate for the following reasons:

(a) although the IASB's approach in developing the draft Standard would be relevant to all entities without public accountability, the IASB made its decision to undertake the project based on the staff analysis of the costs and benefits for subsidiaries. The draft Standard proposes a new approach to exempt entities applying IFRS Accounting Standards from disclosure requirements in those Standards and therefore widening the scope is a sensitive issue. The IASB would need to take stock of the process taken and decisions made before opening up the draft Standard to a wider audience.

(b) many respondents think the scope should be widened, but there was diversity in views on which other SMEs should be included in the scope. For example, the main suggestions are listed in paragraph 15(a)–(d) and paragraph 27 of this paper. In contrast, other respondents think the IASB should be cautious in determining which entities should be permitted to apply the draft Standard and some expressed concerns about how the draft Standard might interact with local regulations. The IASB would need to consider the different views and concerns before widening the scope.

(c) as noted in paragraph BC16(i) of the Basis for Conclusions on the Exposure Draft, if the draft Standard can be applied by any SME, it may be seen as a competing Standard with the established *IFRS for SMEs* Accounting Standard. For example, it might result in some jurisdictions permitting SMEs to use the draft Standard, but not the *IFRS for SMEs* Accounting Standard. Before widening the scope, the staff think the IASB should consider how a wider scope might affect use of the *IFRS for SMEs* Accounting Standard in different jurisdictions, and whether there might be implications for the scope of *IFRS for SMEs* Accounting Standard going forward. The IASB should also consider what educational activities are needed to communicate the benefits of the two standards and their interaction, to assist jurisdictions make optimal adoption decisions.

38. The proposed scope of the draft Standard responds to a clear demand from stakeholders to the *Request for Views—2015 Agenda Consultation* for a reduced disclosure Standard for subsidiaries. Prior to feedback on the Exposure Draft, the IASB did not hear demand for a reduced disclosure standard for all SMEs. Feedback on the draft Standard continues to show strong support for permitting

eligible subsidiaries to use the draft Standard, but feedback is mixed on whether the scope should be extended to some or all other SMEs. Consequently, the staff think that the IASB should first finalise the draft Standard with the existing scope to respond to this clear demand, rather than delay the benefits for subsidiaries while the IASB redeliberates the issues about widening the scope described above. Furthermore, the IASB would then have an opportunity to first assess implementation of the new approach on a subset of SMEs and make a more informed decision on whether to widen the scope to include any other entities without public accountability. It would also allow time for jurisdictions to address the challenges on how the draft Standard interacts with local regulations for a smaller population of entities (subsidiaries) before a wider scope is considered.

### *Should the scope be widened to include subsidiaries that are financial institutions?*

39. Some respondents said the scope should be widened to include subsidiaries that are financial institutions, including insurers and banks. Paragraphs 32–38 of this paper discuss widening the scope to include other entities without public accountability. Therefore, paragraphs 40–42 of this paper only consider those subsidiaries that are financial institutions and have public accountability. In addition, Agenda Paper 30B of this meeting discusses whether the definition of public accountability should be further clarified for financial institutions.

40. As explained in Agenda Paper 31 of this meeting, the IASB's approach in developing the draft Standard was:

    (a) to use the disclosure requirements in the *IFRS for SMEs* Accounting Standard when there are no recognition and measurement differences from IFRS Accounting Standards; and

    (b) when there are such differences, to tailor the disclosures in IFRS Accounting Standards using the same principles applied to develop the disclosure requirements in the *IFRS for SMEs* Accounting Standard (paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard).

41. If the scope was widened to include some entities that have public accountability (entities that are outside the scope of the *IFRS for SMEs* Accounting Standard), the IASB would need to reconsider its fundamental approach to developing the draft Standard. In particular:

    (a) the disclosure requirements in the *IFRS for SMEs* Accounting 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 Accounting Standards. Consequently, there would likely 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.

    (b) both during development of the *IFRS for SMEs* Accounting Standard and during the second comprehensive review of the *IFRS for SMEs* Accounting 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* Accounting Standard appropriately identify their information needs. Consequently, 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.

42. For the above reasons, the staff do not think that the IASB should consider widening the scope of the draft Standard to include any subsidiaries that have public accountability.

### *Should regulators decide on the scope?*

43. A few respondents (mainly standard-setters in Asia) noted that local regulators are in a better position to determine the scope of the draft Standard. Ultimately decisions on which entities should apply IFRS Accounting Standards, including the draft Standard, already rest with the local authorities in a jurisdiction. However, a clear description of the class of entity for which the draft Standard is intended (the proposed scope) is essential so that:

    (a) the IASB can decide on the requirements that are appropriate for that class of entity, and

    (b) local authorities (for example, regulators), standard-setters, reporting entities and their auditors will be informed of the intended scope of applicability of the draft Standard and will understand that there are some types of entities for which the draft Standard is not intended.

44. The proposed scope sets out the maximum scope for which the draft Standard is intended. If a jurisdiction considers that, given its particular circumstances, some entities within the proposed scope should not be permitted to apply the draft Standard, that jurisdiction could further restrict the scope of the draft Standard (see paragraphs 45–47 of this paper). However, a jurisdiction may not permit entities outside the proposed scope to apply and state compliance with IFRS Accounting Standards—that jurisdiction would need to incorporate the draft Standard into its local GAAP and entities would state compliance with the local GAAP in that jurisdiction.

### *Should the scope be narrowed further?*

45. A few respondents suggested a narrower scope. However, as most respondents supported allowing subsidiaries meeting the criteria in paragraph 8 of this paper (eligible subsidiaries) to apply the draft Standard and many suggested the scope should be widened beyond eligible subsidiaries, the staff do not suggest that the IASB considers narrowing the proposed scope.

46. As noted in paragraph 44 of this paper, a jurisdiction could decide to further restrict the scope of the draft Standard. The staff observe that the local authorities in a jurisdiction could adopt the draft Standard but restrict some subsidiaries in their jurisdiction from applying it. For example, a jurisdiction might decide to require subsidiaries who submit financial statements to regulators to apply the full disclosure requirements IFRS Accounting Standards, rather than the draft Standard. However, subsidiaries of the same group in other jurisdictions would not be subject to these local requirements.

47. A suggestion was made that the IASB should consider requiring that non-controlling shareholders are informed about, and do not object to, a partially owned subsidiaries applying the draft Standard (similar to paragraph 4(a)(i) of IFRS 10 *Consolidated Financial Statements*). The staff do not suggest restricting the scope this way as the draft Standard was developed considering all users of the financial statements of entities without public accountability. The staff think that the requirement in paragraph 4(a)(i) of IFRS 10 is primarily intended to protect capital market investors that rely on external financial reporting as their only means of obtaining financial information about the entity. As noted above, the local authorities could restrict the scope of the draft Standard by adding a requirement to inform non-controlling shareholders in a particular jurisdiction.

### *Clarification of the description of public accountability*

48. The description of public accountability in the draft Standard is based on the definition of public accountability and supporting guidance in the *IFRS for SMEs* Accounting Standard. Therefore, the related feedback on the draft Standard, staff analysis and recommendations are covered in Agenda Paper 30B of this meeting, which considers whether the definition of public accountability in the *IFRS for SMEs* Accounting Standard (and the draft Standard) should be further clarified.

### *Available for public use*

49. Some respondents asked for guidance about when financial statements are 'available for public use'. This term is already used in several IFRS Accounting Standards (for example, IFRS 10) and similar terminology is being discussed in the IASB's projects (for example, in the IASB's Primary Financial Statements project). Therefore, the staff will perform further work to understand how the term is used in these other areas before bringing proposals to the IASB at a future meeting.

## Staff recommendation and possible next steps

50. As noted above, the staff recommend the IASB prioritises the project resources to finalise the draft Standard with the scope as proposed in the draft Standard. To enable the IASB and the local authorities in jurisdictions time to first assess implementation of the new approach on a subset of SMEs before a wider scope is considered, the staff recommend the IASB should commit to review the scope of the draft Standard as part of the post-implementation review of the Standard (if the Standard is finalised). Depending on the feedback on the post-implementation review, the IASB would then either add a new project on the scope of the Standard to its research pipeline or undertake a standard-setting project to review the scope as soon as possible.[6]

51. The staff consider that any future project that considers widening the scope should consider the issues in paragraph 37 of this paper and include outreach to understand how a wider scope might affect the established *IFRS for SMEs* Accounting Standard, for example:

[6] The IASB will apply the criteria for assessing matters identified in the post-implementation review. More information about the criteria can be found on the IFRS Foundation's website: [IFRS - Post-implementation Reviews].

(a) whether jurisdictions would permit SMEs to use the draft Standard but not the *IFRS for SMEs* Accounting Standard and their reasons for doing so; and

(b) why some respondents view the draft Standard as more appropriate than the *IFRS for SMEs* Accounting Standard for some SMEs that are not subsidiaries.

52. The staff think that this work would need to be performed before a decision on widening the scope of the draft Standard is made as explained in paragraph 37(c) of this paper. In particular, it would enable us to understand how the suite of the IASB's Accounting Standards (IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard) is likely to be used in practice and assess what communication and educational efforts are necessary to help jurisdictions make optimal adoption decisions for their particular circumstances.

**Question for the IASB**

Does the IASB agree with the staff recommendation that if the IASB decides to proceed to finalise the draft Standard, it should:

- finalise the draft Standard with the scope as proposed in the Exposure Draft; and
- commit to review the scope of the draft Standard as part of the post-implementation review of the Standard?

## 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