Staff paper

Agenda reference: 31A

IASB® meeting

Date	**November 2022**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Scope of the draft Standard**
Contacts	**Rahul Palan** (rpalan@ifrs.org) **Hazirah Hasni** (hhasni@ifrs.org)

Purpose of this paper

1. At its June 2022 meeting, the International Accounting Standards Board (IASB) agreed on a project plan for redeliberating the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) towards developing an IFRS Accounting Standard (Standard).

2. At its May 2022 meeting, the IASB tentatively decided to confirm the scope of the Standard is subsidiaries without public accountability, as proposed in the Exposure Draft.

3. In line with the project plan, the IASB is asked to discuss feedback on other aspects of the proposed scope of the draft Standard as set out in the Exposure Draft, including:

   (a) whether subsidiaries are required to be a 'subsidiary at the end of the reporting period'; and

   (b) whether subsidiaries are required to have an ultimate or intermediate parent that produces consolidated financial statements:

      (i) that comply with IFRS Accounting Standards; and

      (ii) are 'available for public use'.

Summary of staff recommendations

4. The staff recommend that the IASB:

   (a) confirms that subsidiaries eligible to apply the Standard:

      (i) are a 'subsidiary at the end of the reporting period'; and

      (ii) have an ultimate or intermediate parent that produces consolidated financial statements complying with IFRS Accounting Standards; and

   (b) does not proceed with the proposal that the parent's consolidated financial statements are 'available for public use'.

Structure of this paper

5. This paper is structured as follows:

   (a) background (paragraphs 6–12);

   (b) subsidiary at the end of the reporting period (paragraphs 13–17);

   (c) ultimate or intermediate parent producing consolidated financial statements that comply with IFRS Accounting Standards (paragraphs 18–27);

   (d) available for public use (paragraphs 28–44); and

   (e) appendix—extracts from the Basis for Conclusions on the Exposure Draft.

Background

Question in the Invitation to Comment

6. Paragraph 6 of the draft Standard as set out in the Exposure Draft proposed the following scope:

> An entity is permitted to apply this 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;
>
> (b) does not have public accountability; and
>
> (c) has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards.

7. Question 2 of the Invitation to Comment on the Exposure Draft asked if respondents agree or disagree with the IASB's proposed scope. If they disagreed with the proposed scope, respondents were asked what approach they would suggest and why.

8. The appendix to this agenda paper provides an extract from the Basis for Conclusions on the Exposure Draft, which covers the considerations of the IASB on the draft Standard's scope-related aspects discussed in this paper.

Subsidiary at the end of the reporting period

9. In developing the scope proposed in the draft Standard, the IASB concluded that specifying that an eligible subsidiary is a 'subsidiary at the end of the reporting period' would facilitate the application of the draft Standard. Paragraph BC19 of the Basis for Conclusions on the Exposure Draft explains that permitting an entity to apply the draft Standard if it were a subsidiary at the start of or at any time during its reporting period, but not at the end of its reporting period, would result in a possibility that an entity that ceased to be a subsidiary near the start of its reporting period is eligible to apply the draft Standard, despite not being a subsidiary for most of the reporting period.

10. Paragraph BC18 of the Basis for Conclusions on the Exposure Draft also explains that a transaction resulting in an entity ceasing to be a subsidiary would usually be planned for some time, thus allowing time to make any necessary changes to reporting systems and processes.

Ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards

11. In developing the scope proposed in the draft Standard, the IASB decided that the draft Standard should be available only to subsidiaries of a parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. Paragraph BC20 of the Basis for Conclusions on the Exposure Draft explains that this criterion is based on the requirements in paragraph 4(a)(iv) of IFRS 10 *Consolidated Financial Statements.*

12. The IASB observed that restricting the scope of the draft Standard to subsidiaries of a parent that produces consolidated financial statements that comply with IFRS Accounting Standards is consistent with the stakeholder feedback on the need for reduced disclosure requirements for such subsidiaries (see paragraph BC21 of the Basis for Conclusions on the Exposure Draft).

Subsidiary at the end of the reporting period

Feedback [1]

13. During outreach meetings the IASB was asked to consider permitting entities that have ceased to be eligible subsidiaries close to the end of the reporting period to apply the draft Standard. These respondents said it would be difficult for such entities to make necessary changes to reporting systems and processes to move to either full IFRS Accounting Standards or local GAAP (including the *IFRS for SMEs* Accounting Standard).

Staff Analysis

14. The request to permit an entity that has ceased to be an eligible subsidiary close to the end of the reporting period to apply the draft Standard was restricted to outreach events. These participants considered the information needs of the users of financial statements for an eligible subsidiary to be similar to those of the users of financial statements of an entity that ceases to be an eligible subsidiary close to the end of the reporting period.

15. Whilst it could be argued the information needs of users are similar, the staff think if entities that have ceased to be subsidiaries at the end of the reporting period are permitted to apply the Standard, this is 'scope creep' on the project objective. This is because, as explained in paragraphs 7–9 of Agenda Paper 31 *Cover Paper*, the IASB added this project to its work plan to alleviate preparers' concern

[1] See Agenda Paper 31A *Feedback from comment letters* and Agenda Paper 31B *Feedback from outreach events*, of the April 2022 IASB meeting.

about maintaining two sets of records and the cost consequence that arises in preparation of financial statements. This concern only arises if the entity is a subsidiary at the end of the reporting period.

16. Furthermore, participants in outreach events did not suggest how the IASB should determine the period an entity would have ceased being an eligible subsidiary prior to the end of its reporting period. If the scope proposed in the draft Standard were changed, it is likely this period would be arbitrary and some may argue the period is unfair. For example, if the IASB were to permit entities that ceased to be subsidiaries one month prior to the end of the reporting period to apply the Standard, it might be seen as unfair to entities that ceased to be subsidiaries two months before the end of the reporting period.

Staff recommendation and question for the IASB

17. Given the limited feedback, and analysis in paragraphs 14–16, the staff recommend that the IASB confirm its proposal that an entity is permitted to apply this draft Standard in its consolidated, separate or individual financial statements if and only if, at the end of its reporting period, it is a subsidiary.

Question 1 for IASB members
Does the IASB agree with the staff recommendation in paragraph 17?

Ultimate or intermediate parent producing consolidated financial statements that comply with IFRS Accounting Standards

Feedback

18. Feedback on the draft Standard included a suggestion to permit subsidiaries without public accountability to apply the Standard regardless of the generally accepted accounting principles (GAAP) applied in the parent’s consolidated financial statements.

19. Respondents holding this view—mainly preparers and accounting professionals—said permitting subsidiaries without public accountability to apply the Standard regardless of the GAAP applied in the parent’s consolidated financial statement would increase application of IFRS Accounting Standards as the Standard would incentivise use of IFRS Accounting Standards.

20. A few respondents said permitting subsidiaries without public accountability to apply the Standard regardless of the GAAP applied in the parent’s consolidated financial statements would be feasible because the information needs of users of financial statements of subsidiaries without public accountability are the same regardless of the GAAP applied by the parent.

21. Some respondents suggested permitting subsidiaries without public accountability to apply the Standard if their parent applied a GAAP equivalent to IFRS Accounting Standards. Keysight Technologies Inc said:

> … we believe the Board should consider adding in the concept of equivalence and not solely consolidated financial statements that comply with IFRS. We note that the ability to use an equivalent set of accounting standards has been implement by many countries to reduce the cost of financial statement preparation, for example the UK, EU, Singapore, and US.

Staff Analysis

Interaction of the requirement with the project objective

22. The draft Standard would permit eligible subsidiaries to apply the recognition, measurement and presentation requirements of IFRS Accounting Standards with reduced disclosures. This approach enables eligible subsidiaries to align their accounting policies with their parent entities (where appropriate) and is consistent with the project objective[2]. Permitting subsidiaries without public accountability to apply the Standard regardless of the GAAP applied by its parent entity deviates from the project objective.

23. In developing the Exposure Draft, the IASB noted that the draft Standard would simplify and reduce the cost of preparing financial statements for subsidiaries of parents that comply with IFRS Accounting Standards (while maintaining the usefulness of financial statements) as subsidiaries could apply the same recognition and measurement requirements for both their own financial statements and for consolidation purposes.

24. It is questionable whether the cost-benefit analysis would be similar if the subsidiary's parent entity does not comply with IFRS Accounting Standard because the subsidiary or the parent would have to maintain two sets of accounting records.

25. Arguably, there may still be benefits to applying the Standard where IFRS Accounting Standards are required to be applied by all entities in a jurisdiction. For example, if a parent entity is domiciled in a different jurisdiction and reports applying a different GAAP, the cost of applying IFRS Accounting Standards would necessarily be incurred by the subsidiary, and applying the Standard would help reduce overall cost for the group.

[2] As set out in paragraph BC8 of the Basis for Conclusions on Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, the objective of the project is to develop proposals to permit eligible subsidiaries to apply the recognition and measurement requirements in IFRS Standards, with reduced disclosure requirements developed from the disclosure requirements in the *IFRS for SMEs* Standard.

IFRS Equivalence

26. The staff does not support the suggestion to permit subsidiaries without public accountability to apply the Standard if they apply a GAAP equivalent to IFRS Accounting Standards. If the IASB were to introduce 'equivalence' into the Standard, it would need to define the meaning of 'equivalent to IFRS Accounting Standards'.

Staff recommendation and question for the IASB

27. Given the analysis in paragraphs 22–26, the staff recommend that the IASB confirm its proposal that an eligible subsidiary without public accountability has an ultimate or intermediate parent that produces consolidated financial statements that comply with IFRS Accounting Standards.

Question 2 for IASB members
Does the IASB agree with the staff recommendation in paragraph 27?

Available for public use

Feedback

28. Some respondents—mainly national-standard setters—noted that 'available for public use' is already used in IFRS Accounting Standards. These respondents noted that the term is fundamental to the scope of the draft Standard and asked for additional clarification.

29. These respondents asked for clarification on whether financial statements are available for public use in specific situations in their jurisdictions. For example, where the filing of the parent's financial statements is required with a governing regulatory body, but:

    (a) the public cannot access such financial statements;

    (b) access is permitted at the regulator's discretion for only certain users, such as banks or financial institutions for credit evaluation; or

    (c) access is permitted to the public on request or on payment of a prescribed fee.

Feedback from ASAF members

30. In September 2022, the staff asked ASAF members for their views on removing the requirement for the parent's consolidated financial statements to be 'available for public use'.

31. Some ASAF members supported the staff recommendation to remove the requirement that the parent's consolidated financial statements be 'available for public use' from the scope of the draft Standard. These ASAF members said removing the requirement would permit more subsidiaries to be eligible to apply the Standard and thereby benefit from its proposals.

32. Some ASAF members were neutral on removing or retaining the requirement 'available for public use'. These members are of the view that the 'available for public use' requirement is not fundamental to the scope of the draft Standard. Some of these members suggested research on the effects of removing the requirement.

33. One ASAF member disagreed with removing the requirement 'available for public use'. In their view, consistency is needed between the scope of the draft Standard and IFRS 10. This member said that the IFRS Interpretations Committee is better positioned to provide guidance on the application of 'available for public use'.

34. One ASAF member received mixed views from their stakeholders that were inconclusive.

35. One ASAF member that supported removing 'available for public use' requested guidance on applying the requirement in IFRS Accounting Standards. However, two ASAF members cautioned against providing guidance on the requirement 'available for public use'. In their view, any guidance may have unintended consequences on application of the requirement in IFRS Accounting Standards.

Staff analysis

Use of 'available for public use' in other IFRS Accounting Standards

36. The terms 'public use' and 'available for public use' are not defined in IFRS Accounting Standards. However, these terms are used in IFRS Accounting Standards as follows:

    (a) as part of the exemption from preparing consolidated financial statements in IFRS 10.

    (b) as part of the exemption from applying the equity method in IAS 28 *Investments in Associates and Joint Ventures*;

    (c) as part of disclosure requirements of IAS 27 *Separate Financial Statements*, requiring a parent entity that applies the exemption from consolidated financial statements in IFRS 10 to disclose this fact in its separate financial statements, alongside information about the parent entity that produces consolidated financial statements and the address where to obtain them; and

(d) as part of disclosure requirements of IAS 24 *Related Party Disclosures*, an entity is required to disclose the name of its next most senior parent that produces consolidated financial statements that are 'available for public use' if the entity's parent or ultimate controlling party do not.

37. The IASB recently concluded that the requirements of IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* are working as intended, in its post-implementation review of these Standards. In particular, the IASB decided no further action was required to address the feedback on the consolidation exemption in paragraph 4 of IFRS 10[3].

Clarifying the requirement 'available for public use'

38. Most respondents who commented on this topic requested further guidance on applying the requirement 'available for public use'. However, as ASAF members noted, providing guidance could have unintended consequences on the application of the term. For example, clarifying the term 'available for public use' could create conflict with existing regulations or practices. Therefore, in providing guidance, the IASB would need to carefully balance the cost of disrupting current practice and other potential implications for other IFRS Accounting Standards that use the term with the benefit of more consistent application of that term in financial reporting. A few ASAF members also cautioned against providing any further clarification on the requirement 'available for public use' and noted that they would not support this action (paragraph 35).

Removing the requirement 'available for public use'

39. Unlike paragraph 4 of IFRS 10, paragraph 9.3 of the *IFRS for SMEs* Accounting Standard does not require the ultimate or intermediate parent's consolidated financial statements to be 'available for public use' when exempting subsidiaries (applying the *IFRS for SMEs* Accounting Standard) from preparing consolidated financial statements. Paragraph 9.3 of the *IFRS for SMEs* Accounting Standard states:

> A parent need not present consolidated financial statements if both of the following conditions are met:
>
> (a) the parent is itself a subsidiary; and
>
> (b) its ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full IFRS or with this Standard.

[3] See Agenda Paper 7 *Responding to the feedback* of February 2022 IASB meeting.

40. It could be argued that as the draft Standard provides a significant reduction in disclosure requirements, it is important that a user of financial statements has access to the ultimate or intermediate parent's consolidated financial statements, that is those financial statements are available for public use. However, the IASB did not develop the proposed disclosure requirements in the draft Standard using this assumption. The IASB recognised that subsidiaries that do not have public accountability are eligible to apply the *IFRS for SMEs* Accounting Standard.

41. As noted in paragraph BC4 of the Basis for Conclusions on the Exposure Draft, this approach enabled the IASB to be satisfied the disclosure requirements of the *IFRS for SMEs* Accounting Standard are sufficient in meeting the needs of users of these subsidiaries' financial statements in the absence of recognition and measurement differences.

42. Although in the draft Standard the exemption in paragraph 4(a)(iv) of IFRS 10 has been used to define the scope of entities eligible to apply the draft Standard, instead the staff think that the IASB could have used paragraph 9.3 of the *IFRS for SMEs* Accounting Standard in proposing the scope of the draft Standard.

43. Removing the requirement for the parent's financial statements to be 'available for public use' from the scope of the draft Standard may enable more subsidiaries to be eligible to apply the Standard and thereby benefit from the Standard while keeping the Standard’s scope consistent with:

    (a) the project objective; and

    (b) feedback from stakeholders discussed above (see paragraphs 28–35).

Staff recommendation and question for the IASB

44. Given the analysis in paragraphs 36–43, the staff recommend the IASB does not proceed with the proposal in the Exposure Draft that the ultimate or intermediate parent of an eligible subsidiary produces consolidated financial statements that are ‘available for public use’.

Question 3 for IASB members
Does the IASB agree with the staff recommendations in paragraph 44?

Appendix A—extract from the Basis for Conclusions of the Exposure Draft

Scope

…

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.