Staff paper

Agenda reference: 2C

Accounting Standards Advisory Forum meeting

Date	**September 2022**
Project	**Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures***
Topic	**Structure of the draft Standard**
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Purpose of this paper

1. This paper asks Accounting Standards Advisory Forum (ASAF) members for their views on how the staff should recommend the International Accounting Standards Board (IASB) addresses feedback on the structure of the draft IFRS Accounting Standard (draft Standard), set out in Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft).

Questions to ASAF members

2. ASAF members are asked:

   (a) What are your views on retaining Appendix A of the draft Standard as proposed in the Exposure Draft (paragraphs 8–16)?

   (b) Paragraphs 20–28 of this paper set out four alternatives in structuring disclosure requirements in other IFRS Accounting Standards that remain applicable.

      (i) Are there any other advantages or disadvantages not identified in the staff preliminary analysis that you think the IASB should consider when assessing the alternatives presented in this paper?

      (ii) What are your views on the alternatives presented in this paper?

Structure of the paper

3. This paper is structured as follows:

   (a) introduction (see paragraphs 5–7);

   (b) Appendix A of the draft Standard (see paragraphs 8–16); and

   (c) footnotes in the draft Standard (see paragraphs 17–30).

4. The appendices to this paper reproduce the feedback on the structure of the draft Standard from Agenda Paper 31A *Feedback from comment letters*; and Agenda Paper 31B *Feedback from outreach events* of the April 2022 IASB meeting.

Introduction

5. The draft Standard is proposed as a separate Standard within IFRS Accounting Standards and is structured as follows:

   (a) a main body that includes the proposed disclosure requirements an eligible subsidiary would apply organised under the subheading of each IFRS Accounting Standard (for example, the disclosure requirements for inventories are set out under the subheading IAS 2 *Inventories*);

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

   (c) to assist application, disclosure requirements in other IFRS Accounting Standards that remain applicable are generally indicated in a footnote to the subheading of the IFRS Accounting Standard to which they relate.

6. At its April 2022 meeting, the IASB discussed feedback on the Exposure Draft.[1] Overall, most respondents expressed support for:

   (a) the draft Standard to be a separate Standard within IFRS Accounting Standards; and

   (b) organising the disclosure requirements in the draft Standard under the subheading of each IFRS Accounting Standard.

7. However, respondents expressed mixed views about:

   (a) Appendix A of the draft Standard; and

   (b) the footnotes to the subheading of the IFRS Accounting Standards to which they relate.

Appendix A of the draft Standard

8. Appendix A is proposed as an integral part of the draft Standard and sets out the disclosure requirements in other IFRS Accounting Standards that do not apply to an eligible subsidiary applying the draft Standard (that is, those that are replaced by the proposed disclosure requirements in the main body of the draft Standard).

Summary of feedback[2]

9. Some respondents supported retaining Appendix A. These respondents said that Appendix A provides a useful list of disclosure requirements that are not required when applying the draft Standard, which would facilitate the application of the Standard and preparation of financial statements. Albeit some respondents said the disclosure requirements listed in Appendix A should be incorporated into the main body of the draft Standard rather than included as an appendix to the Standard.

[1] See Agenda Paper 31A *Feedback from comment letters* and Agenda Paper 31B *Feedback from outreach events*.

[2] See the appendices to this paper for more detailed summary

10. Some respondents did not support retaining Appendix A. These respondents said that the disclosure requirements listed in Appendix A could be confusing to preparers because they are requirements that need not be applied.

Staff preliminary analysis

11. In developing the draft Standard, the IASB considered that Appendix A would facilitate:

    (a) identifying exemptions from disclosure requirements in other IFRS Accounting Standards—Appendix A specifically exempts eligible subsidiaries from disclosure requirements in other IFRS Accounting Standards. In some jurisdictions, the requirements of IFRS Accounting Standards are encoded into law and explicit exemptions would be needed to exempt the disclosure requirements included in law.

    (b) application of the draft Standard—Appendix A provides clarity and addresses the blurring between use of the terms 'presentation' and 'disclosure' in the requirements of IFRS Accounting Standards. It was considered that an eligible subsidiary applying the draft Standard would apply presentation requirements in other IFRS Accounting Standard and would benefit from the clarification on which disclosure requirements are exempt as listed in Appendix A.[3]

12. The IASB's proposal to permit eligible subsidiaries to provide reduced disclosures (that is, the draft Standard) is a new approach for the IASB and its stakeholders. The staff think that Appendix A:

    (a) provides helpful guidance for stakeholders applying the draft Standard for the first time (in particular for preparers that transition from applying disclosure requirements in full IFRS Accounting Standard to the draft Standard);

    (b) facilitates a preparer's cost-benefit assessment in considering whether to elect to apply the draft Standard; and

    (c) provides users of financial statements with a reference list of disclosure requirements that an eligible subsidiary would not provide applying the draft Standard.

13. However, some respondents said that retaining Appendix A as proposed in the draft Standard may lead to confusion regarding its use because it refers to disclosure requirements that need not be applied. Arguably, setting out disclosure requirements that need not be applied is also a departure from the usual format of IFRS Accounting Standard requirements.

14. As Appendix A of the draft Standard lists the disclosure requirements in other IFRS Accounting Standards that need not be applied, it could be removed with consequential amendments made to paragraph 2 of the draft Standard. Paragraph 2 of the draft Standard states an entity applies IFRS Accounting Standards except for the disclosure requirements in Appendix A.

15. Removing Appendix A would address stakeholders concerns that retaining it could be confusing to preparers. In Agenda Paper 31 *Sweep issues* of the May 2021 IASB meeting, the staff observed that including Appendix A as part of the Exposure Draft would provide guidance to stakeholders that may

[3] See paragraphs 16–25 of Agenda Paper 31 *Sweep issues* of the May 2021 IASB meeting and IASB Update May 2021

help them better understand and comment on the proposals. However, there may be different benefits of retaining Appendix A as part of the final Standard.

16. The staff are interested in obtaining ASAF members' views on whether the merits of retaining Appendix A in the draft Standard as proposed in the Exposure Draft outweigh the merits of removing Appendix A when the draft Standard is finalised. The staff also welcome any other suggestions about how to reduce any confusion regarding the use of Appendix A, for example whether it might be provided as educational material rather than an integral part of the Standard.

Question for ASAF members	
1.	What are ASAF members' views on retaining Appendix A of the draft Standard as proposed in the Exposure Draft?

Footnotes in the draft Standard

17. In developing the Exposure Draft, the IASB concluded that some disclosure requirements in other IFRS Accounting Standards would remain applicable to eligible subsidiaries applying the draft Standard (that is, not replaced by the draft Standard). These include:

(a) disclosure requirements that should be easier for preparers to consider in situ because the paragraphs that follow them contain requirements about their application;

(b) disclosure requirements embedded in paragraphs that include recognition, measurement or presentation requirements; and

(c) disclosure requirements that use the term 'disclosure' in a broad sense, encompassing items presented on the face of the primary financial statements.[4]

18. Disclosure requirements in other IFRS Accounting Standards that remain applicable are generally stated in a footnote to the subheading of the IFRS Accounting Standard to which they relate.[5]

Summary of feedback[6]

19. Some respondents agreed with the use of footnotes in the draft Standard to identify disclosure requirements in other IFRS Accounting Standards that remain applicable. However, most respondents disagreed with this use of footnotes because some preparers and auditors might overlook or be confused by the footnotes. Many respondents suggested the IASB either list or reproduce the disclosures requirements in the footnotes in the main body of the draft Standard.

[4] See paragraph BC70 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*
[5] See paragraph BC70 of the Basis for Conclusion on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*
[6] See the appendices to this paper for more detailed summary

Staff preliminary analysis

20. The staff have identified four possible alternatives that could be presented to the IASB in considering the structuring of disclosure requirements in other IFRS Accounting Standards that remain applicable when finalising the draft Standard:

    (a) list references to disclosure requirements in other IFRS Accounting Standards that remain applicable in an appendix to the draft Standard (see paragraphs 21–22);

    (b) list references to disclosure requirements in other IFRS Accounting Standards that remain applicable in the main body of the draft Standard (see paragraphs 23–24);

    (c) retain references to disclosure requirements in other IFRS Accounting Standards that remain applicable in footnotes to the draft Standard, as proposed in the Exposure Draft (see paragraphs 25–26); or

    (d) remove references to disclosure requirements in other IFRS Accounting Standards that remain applicable from the draft Standard (ie, remove the footnotes altogether), but only if Appendix A is retained as an integral part of the draft Standard (see paragraphs 27–28).

Alternative A—appendix

21. Listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in an appendix might:

    (a) ease application of the draft Standard as the references would be aggregated in a single ‘place’;

    (b) reduce the risk of unintended omissions by preparers and facilitate preparation of financial statements; and

    (c) distinguish these disclosure requirements from the disclosure requirements required by the draft Standard itself.

22. However, listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in an appendix may be counterintuitive as preparers would then need to refer to two different ‘places’—that is, the main body and the appendix—to identify the required disclosures applying the draft Standard. Furthermore, listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in an appendix may appear not to give these disclosure requirements equal prominence with those set out in the main body of the draft Standard.

Alternative B—main body

23. Listing references to disclosure requirements in other IFRS Accounting Standards that remain applicable in the main body of the draft Standard could also mitigate concerns that these requirements may be overlooked and lead to unintended omissions. This alternative would be more consistent with the usual format in IFRS Accounting Standards—that is, requirements are listed in the main body rather than a footnote or in an appendix. Listing the references in the main body may also

be seen to give equal prominence to these disclosure requirements and the disclosure requirements developed applying the IASB's agreed approach.

24. This alternative would, however, lead to a duplication of disclosure requirements. Listing these disclosure requirements in the main body of the draft Standard posits that these disclosure requirements are also disclosure requirements of the draft Standard. Under this alternative, an eligible subsidiary would effectively be subject to the same disclosure requirements twice— that is, as disclosure requirements in other IFRS Accounting Standards (those not identified in Appendix A of the draft Standard) and as disclosure requirements listed in the main body of the draft Standard.

Alternative C—retain footnotes

25. Retaining references to disclosure requirements in other IFRS Accounting Standards that remain applicable in footnotes as proposed in the Exposure Draft, would enable preparers and auditors to consider these requirements together with those disclosure requirements proposed in the main body of the draft Standard. Using footnotes can be seen as a middle ground between Alternative A and Alternative B.

26. However, as set out in paragraph 19 of this paper, respondents to the Exposure Draft said that the use of footnotes may lead to unintended omission of disclosures and confusion among preparers.

Alternative D—remove footnotes

27. Removing references to disclosure requirements in other IFRS Accounting Standards that remain applicable from the draft Standard (ie, removing the footnotes altogether) is a viable alternative if Appendix A of the draft Standard is retained as an integral part of the Standard. Implicitly any disclosure requirements in other IFRS Accounting Standards that are not listed in Appendix A remain applicable.

28. Alternative D would ease navigation of the draft Standard as it essentially structures the draft Standard into two rather than three parts. Nevertheless, staff think doing so introduces complexity as preparers of financial statements would have to perform the exercise of identifying those disclosure requirements in other IFRS Accounting Standards that remain applicable themselves by reconciling disclosure requirements in Appendix A to those in other IFRS Accounting Standards.

Summary

29. Due to the nature of those disclosure requirements in other IFRS Accounting Standards that remain applicable (see paragraph 17 of this paper), the staff have not suggested an alternative of reproducing the full text of those disclosure requirements in the main body of the draft Standard (rather than just the references to the disclosure requirements). This is because the staff think that doing so would complicate application of the draft Standard and potentially lead to the inclusion of some recognition, measurement or presentation requirements in the draft Standard when these requirements cannot be separated from disclosure requirements.

30. The staff are interested in obtaining ASAF members' views on the possible alternatives identified in structuring disclosure requirements in other IFRS Accounting Standards that remains applicable and whether there are any advantages or disadvantages of the alternatives that have not been identified in this paper.

Questions for ASAF members
2. Paragraphs 20–28 of this paper set out four alternatives in structuring disclosure requirements in other IFRS Accounting Standards that remain applicable. (a) Are there any other advantages or disadvantages not identified in the staff preliminary analysis that ASAF members think the IASB should consider when assessing the alternatives presented in this paper? (b) What are ASAF members' views on the alternatives presented in this paper?

Appendix I: Extracts from Agenda Paper 31A Feedback from comment letters of the April 2022 IASB meeting

A1. This appendix reproduces paragraphs 63–74 of Agenda Paper 31A of the April 2022 IASB meeting:

Organisation by IFRS Accounting Standards

63. Almost all respondents who commented supported organising the disclosure requirements in the draft Standard by IFRS Accounting Standard. These respondents agreed with the IASB's reasoning that this approach avoids the need to reproduce the scope of each IFRS Accounting Standard within the draft Standard.

Footnotes

64. Respondents who commented on the footnotes expressed mixed views.

65. Some respondents agreed with identifying the disclosure requirements in other IFRS Accounting Standards that remain applicable in footnotes. One respondent suggested providing an appendix summarising all the disclosure requirements referred in the footnotes to facilitate application of the footnotes in the draft Standard.

66. Most respondents disagreed with the use of footnotes because some preparers and auditors might:

(a) view the footnotes as unimportant, which could lead to unintended omission of the disclosure requirements in the footnotes;

(b) find it challenging to navigate the three separate sections (the main body of the draft Standard, footnotes and Appendix A) within the draft Standard as well as referring to other IFRS Accounting Standards in determining the disclosure requirements; and

(c) be confused by the proposed use of footnotes as it would be a departure from the usual format in IFRS Accounting Standards.

67. The Institute of Chartered Accountants in England and Wales said:

> *In our view, for the draft Standard to be user-friendly and comprehensible there should be a full list of all required disclosures within the body of the Standard. The use of footnotes to reference disclosure requirements in other Standards makes it difficult to use as the disclosure requirements for an individual topic might be spread across multiple locations. …*

68. Alternatively, many respondents suggested the IASB either list or reproduce the disclosures requirements in the footnotes in the main body of the draft Standard under the subheading of the relevant IFRS Accounting Standard. They noted this would facilitate application of the draft Standard for both preparers and auditors.

Appendix A of the draft Standard

69. Respondents who commented on Appendix A expressed mixed views.

70. Some respondents supported retaining Appendix A when the draft Standard is finalised and said Appendix A provides a useful list of disclosure requirements that are not required when applying the draft Standard.

71. Some respondents said the disclosure requirements listed in Appendix A should be incorporated into the main body of the draft Standard within the subheading of the IFRS Accounting Standard to which they relate. Respondents who hold this view said that such an approach would:

    (a) improve usability of the draft Standard, rather than requiring a subsidiary to navigate three separate sections of the draft Standard (the main body of the draft Standard, footnotes and Appendix A); and

    (b) clearly identify disclosure requirements that do and do not apply to eligible subsidiaries applying the draft Standard.

72. Some respondents did not support retaining Appendix A if the draft Standard is finalised. Respondents holding this view noted that disclosure requirements listed in Appendix A could be confusing to preparers because they are requirements that need not be applied.

Separate IFRS Accounting Standard

73. Many respondents supported the IASB's proposal for the draft Standard to be a separate Standard within the IFRS Accounting Standards. However, a few respondents were of the view that the draft Standard should be developed as a separate stand-alone framework (like the *IFRS for SMEs* Accounting Standard) that includes recognition, measurement and presentation requirements because the issuance of a single comprehensive document would:

    (a) facilitate application of the draft Standard as eligible subsidiaries would only need to refer to 'one place' when preparing their financial statements;

    (b) avoid confusion about the basis of preparation and statement of compliance;

    (c) provide users of eligible subsidiary's financial statements with clarity about the financial reporting framework applied; and

    (d) ensure that it stands on its own as a complete Standard.

74. Of those who disagreed with the draft Standard being a separate IFRS Accounting Standard, a few respondents suggested the IASB incorporate the proposed disclosure requirements in IFRS Accounting Standards on a Standard-by-Standard basis.

Appendix II: Extracts from Agenda Paper 31A Feedback from comment letters of the April 2022 IASB meeting

B1. This appendix reproduces paragraph 27 of Agenda Paper 31B of the April 2022 IASB meeting.

> 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.