IFRS Accounting

Staff paper

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Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Approach to maintenance**
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Purpose of this paper

1. The purpose of this paper is to summarise the International Accounting Standards Board's (IASB) approach to maintenance of the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* ("subsidiaries Standard").

2. The paper does not ask the IASB to make any decisions. It should be read in conjunction with Agenda Paper 18A on the Business Combinations–Disclosures, Goodwill and Impairment project which considers disclosures to be included in the forthcoming amendments to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets* and will propose amendments to the subsidiaries Standard.

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Structure of the paper

3. The paper is structured into three parts:

   (a) summary of discussions to date (paragraphs 4–6);

   (b) approach to individual potential amendments (paragraphs 7–15); and

   (c) assessing the overall position (paragraphs 16–18).

Summary of discussions to date

4. In October 2022, the IASB confirmed its commitment to applying the following principles for reducing disclosures when deciding whether to make amendments to the subsidiaries Standard:

   (a) short-term cash flows: users are interested in information about the entity's ability to meet its obligations;

   (b) liquidity: users are interested in information about the entity's ability to generate cash flows and continue as a going concern;

   (c) measurement uncertainty: users need information about how amounts in the financial statements are measured, including inputs (for example, significant judgements and estimates) used in those calculations;

   (d) disaggregation: users want information about composition or details of movements of amounts in the financial statements; and

   (e) accounting policy choices: users are interested in the accounting policies applied by an entity, particularly when a Standard offers more than one accounting policy option.

5. The Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries ED) published in July 2021 included disclosure requirements from IFRS Accounting Standards issued up to 28 February 2021 and stated in paragraph BC91 that the IASB would "...consider proposing amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Accounting Standard

to facilitate consideration of the appropriate amendments to the draft Standard when the related amendments to IFRS Accounting Standards are being discussed". The IASB has since had a number of discussions on its approach to maintenance of the Standard:

(a) In November 2020 the IASB agreed that the cut-off date for the content to be included in the consultation document should include IFRS Accounting Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published as at 1 January 2021, except for the Exposure Draft *General Presentation and Disclosures* and that the IASB would consider amendments to the reduced-disclosure IFRS Standard when it published an exposure draft of a new or amended IFRS Accounting Standard[1];

(b) In June 2022 the IASB tentatively decided to include in the new IFRS Accounting Standard disclosure requirements of IFRS Accounting Standards issued as at 28 February 2021 and to consider amendments to the disclosure requirements in IFRS Accounting Standards issued after 28 February 2021 after the new Standard is issued[2].

(c) In January 2023 the IASB confirmed its proposal to consider amendments to the new Standard at the same time it publishes an exposure draft for a new or amended Accounting Standard[3].

(d) In March 2023 the IASB decided that, in developing reduced disclosure requirements, it will assess separately the costs and benefits for subsidiaries applying the IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* and the costs and benefits for SMEs applying the *IFRS for SMEs* Accounting Standard[4].

1 See IASB *Update* of the November 2020 IASB and joint IASB-FASB meeting.
2 See IASB *Update* of the June 2022 IASB meeting.
3 See IASB *Update* of the January 2023 IASB meeting.
4 See IASB *Update* of the March 2023 IASB meeting.

(e) In July 2023, the IASB confirmed that new and amended IFRS Accounting Standards between 1 March 2021 and the date of issue of the subsidiaries Standard will be dealt with through a "catch-up Exposure Draft" which will propose new or amended disclosure requirements based on applying the principles for reducing disclosures.

6. Any exposure drafts published after this date that include new or amended disclosure requirements will propose amendments to the subsidiaries Standard with the expectation that these would become effective at the same time as the other changes. This approach was confirmed in January 2023.[5]

Approach to individual potential amendments

7. When the IASB issues a new or amended IFRS Accounting Standard that includes new or amended disclosure requirements, the exposure draft will also include proposed changes to the subsidiaries Standard.

8. New or amended IFRS Accounting Standards might include disclosure requirements that fall into any of the following groups:

(a) new requirements;

(b) deletion of existing requirements;

(c) amendment of requirements that are in the subsidiaries Standard; and

(d) amendment of requirements that are not in the subsidiaries Standard.

9. If the proposed amendments delete a disclosure requirement that was included in the subsidiaries Standard (group (b) of paragraph 8) then the expected response would be to propose deleting it from the subsidiaries Standard.

[5] See IASB *Update* and Agenda Paper 31C *Maintenance of the Standard* of the January 2023 IASB meeting.

10. If the proposed amendments are new disclosure requirements or amend requirements that are in the subsidiaries Standard (groups (a) and (c) of paragraph 8), then those new or amended requirements will be assessed using the principles for reducing disclosures requirements. The process for assessing whether an individual new or amended disclosure requirement should amend the subsidiaries Standard will be the same as that followed by the IASB in its detailed discussions of feedback on the Subsidiaries ED in April and May 2023 (see Appendix A for extracts from the April and May 2023 IASB staff papers showing how the principles for reducing disclosure requirements were applied).

11. Finally, if the proposed amendments change disclosure requirements that are not included in the subsidiaries Standard (group (d) of paragraph 8), these would again be assessed against the principles, but the discussion would also include reference to the IASB's relevant previous discussions and decisions not to include the disclosure requirement, to determine whether there is new information to warrant consideration of inclusion in the subsidiaries Standard. It may also be necessary at this stage or the previous stage to perform further outreach to understand the views of users and preparers on any possible amendments.

12. IASB members might also assess whether there has been any change in the information available to them since the subsidiaries Standard was issued or last updated. If new information has come to light that would have led to different decisions had the IASB been aware of it before the issue of the subsidiaries Standard, this supports adding related disclosure requirements or deleting those which are no longer judged to be necessary. An example might be a post-implementation review of an IFRS Accounting Standard which generates responses from relevant users explaining their information needs.

13. In general, it would be expected that the only disclosure requirements that would be considered for inclusion in the subsidiaries Standard would be those that are new or amended by each new exposure draft. The publication of an exposure draft covering a limited part of a topic would not act as a trigger to revisit all of the disclosures on that topic.

14. It is likely that judgement will be needed on a case by case basis about exactly which disclosure requirements in the subsidiaries Standard will be reconsidered. In an extreme situation, an editorial change such as updating punctuation does not change the substance of a disclosure requirement so would not in itself require a previous decision on that requirement to be re-opened.

15. The detail-level assessment will also include considering the relative costs and benefits of revised disclosure requirements. This consideration will take into account the fact that eligible subsidiaries are by definition part of a group, which may offer them cost savings; however because they are not publicly accountable there may be fewer incremental benefits of additional disclosures, since an eligible subsidiary's parent will always be in a position to request any further information that it needs, without this having to be disclosed in the financial statements.

Assessing the overall position

16. An extra step is needed for new amendments to the subsidiaries Standard so that the integrity of the subsidiaries Standard can be preserved.

17. The additional step is to assess the overall position that would be reached if any proposed new disclosure requirements were to be introduced to the subsidiaries Standard. The subsidiaries Standard is a reduced disclosure standard and must continue to meet the needs of users of financial statements of eligible subsidiaries while also being sufficiently appealing to those subsidiaries themselves. Subsidiaries will assess the cost savings (benefit) of applying the recognition and measurement requirements of IFRS Accounting Standards for their group reporting and their own

financial statements with reduced disclosures—avoiding preparing disclosures that are only needed for publicly accountable entities.

18. IASB members might assess, for instance, what proportion of new disclosure requirements in a new or amended IFRS Accounting Standard are being proposed for inclusion in the subsidiaries Standard: if all of the new disclosure requirements are being proposed for inclusion, this may not be compatible with the objective of a reduced disclosure standard. It may also be necessary to step back to a standard-level assessment: if the subsidiaries Standard previously contained 40% of the disclosure requirements relating to one IFRS Accounting Standard, but incorporating new requirements would move this to 90%, again this might indicate that the goal of reducing disclosures was not being met.

Summary

19. Potential amendments to the disclosure requirements in the subsidiaries Standard will be considered when they arise as a result of changes to disclosure requirements in a proposed new or amended IFRS Accounting Standard. They will be considered individually based on the principles for reducing disclosures, and holistically to ensure that the effect of making the amendments would be proportionate and would preserve the goal of maintaining the usefulness of financial statements of eligible subsidiaries with reduced disclosure requirements.

Question for the IASB
Do IASB members have any questions or comments about the staff's summary of how the agreed approach to maintenance is operationalised?

Appendix A—Examples on how to apply the reduced disclosure principles

IAS 36 *Impairment of Assets*

A1.1. Agenda paper 31A of the April 2023 IASB meeting discussed responses to the Exposure Draft suggesting additional disclosure requirements based on paragraph 130(d) of IAS 36 relating to impairment losses recognised for a cash-generating unit. The staff analysis and recommendation are reproduced to illustrate the application of the principles for reducing the disclosure requirements which led to the additional of disclosure requirements to those proposed in the subsidiaries Exposure Draft.

Staff analysis

A1.2. The disclosure requirements in paragraph 130(d) of IAS 36 were not proposed in the draft Standard consistent with the *IFRS for SMEs* Accounting Standard.

A1.3. Identifying cash-generating units is a fundamental part of the process for measuring impairment losses applying IAS 36 and the *IFRS for SMEs* Accounting Standard, however, if the IASB were to respond to feedback and add disclosure requirements this would be an exception to its agreed approach.[6]

A1.4. The exception could be based on the principle that users of eligible subsidiaries' financial statements are particularly interested in cash flows, and disaggregation into cash-generating units is part of developing an understanding of cash flows and liquidity.

[6] The IASB agreed approach, in developing the subsidiaries Exposure Draft, was to make use the reduced disclosure requirements in the *IFRS for SMEs* Accounting Standard if the recognition and measurement requirements were the same as IFRS Accounting Standards.

A1.5. IAS 36 requires:

(a) a description of each cash-generating unit, which is necessary to provide meaningful context for the remainder of the disclosures (paragraph 130(d)(i)); and

(a) information to be disclosed where there are changes in the composition of cash-generating units: this will be useful information to users if there are such changes, and does not require additional work if there are no such changes (paragraph 130(d)(iii)).

A1.6. Subsidiaries are likely to provide this information to their parent so there should not be additional cost in preparing the disclosures.

Staff recommendation

A1.7. The staff recommends the IASB add paragraph 130(d)(i) and (iii) of IAS 36 to the new Standard.

IASB tentative decision

A1.8. At its April 2023 meeting, the IASB tentatively decided to revise the proposed disclosure requirements in the Exposure Draft and add paragraphs 130(d)(i) and (iii) of IAS 36 to the new Standard. [7]

IAS 27 *Separate Financial Statements*

A1.9. Agenda paper 31A of the May 2023 IASB meeting[8] discussed suggestions from two respondents to add paragraph 16(b) of IAS 27 to the new Standard. The extracts from the staff paper illustrate how this proposal was considered through the principles for reducing the disclosure requirements and why the IASB decided not to add new

[7] See Agenda Paper 31A Feedback on proposed disclosure requirements and IASB *Update* of the April 2023 IASB meeting.

[8] See Agenda Paper 31A Feedback on proposed disclosure requirements and IASB *Update* of the May 2023 IASB meeting.

requirements to the forthcoming Standard as none of the principles for reducing the disclosure requirements were met.

A1.10. Paragraph 16(b) of IAS 27 requires an entity to disclose a list of significant investments in subsidiaries, joint ventures, and associates. The disclosure requirements include the name and principal place of business of the investee and the proportion of the ownership interest held in the investee. The respondents said the disclosures would provide useful information to users of eligible subsidiaries' financial statements.

Staff analysis

A1.11. The staff do not agree with adding paragraph 16(b) of IAS 27 to the new Standard. The disclosures are not included in the *IFRS for SMEs* Accounting Standard and there is no recognition and measurement difference with IFRS Accounting Standards. Applying the IASB's approach, paragraph 16(b) of IAS 27 was not proposed in the draft Standard. The staff has not identified which of the principles for reducing disclosure requirements the information provided by paragraph 16(b) of IAS 27 would relate to.

Staff recommendation

A1.12. The staff recommends the IASB not add paragraph 16(b) of IAS 27 to the new Standard.

IASB tentative decision

A1.13. The IASB tentatively decided not to add this disclosure requirement to the new Standard.