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IFRS® Standards Exposure Draft ED/2021/7
Basis for Conclusions

Subsidiaries without Public Accountability: Disclosures

Comments to be received by 31 January 2022

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Basis for Conclusions on

Exposure Draft

Subsidiaries without Public Accountability: Disclosures

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This Basis for Conclusions accompanies the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (published July 2021; see separate booklet). Comments need to be received by 31 January 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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Basis for Conclusions on Exposure Draft *Subsidiaries without Public Accountability: Disclosures*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft Subsidiaries without Public Accountability: Disclosures. *It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.*

Introduction

BC1 The Exposure Draft *Subsidiaries without Public Accountability: Disclosures* sets out proposals for a new, optional, IFRS Standard (the draft Standard) that would specify which disclosure requirements would apply to subsidiaries that do not have public accountability and whose parent produces consolidated financial statements available for public use that comply with IFRS Standards.

Project background

BC2 The Board added the project to its research pipeline in response to feedback from stakeholders on the *Request for Views—2015 Agenda Consultation*. These stakeholders—mainly preparers—requested that the Board permit subsidiaries with a parent that applies IFRS Standards in its consolidated financial statements to apply IFRS Standards with reduced disclosure requirements. Many subsidiaries are eligible to apply the *IFRS for SMEs*® Standard for their general purpose financial statements, and applying the *IFRS for SMEs* Standard would allow a subsidiary to provide fewer disclosures than if it applied IFRS Standards. However, many subsidiaries find applying the *IFRS for SMEs* Standard unattractive because they need to report to their parent amounts that comply with the recognition and measurement requirements in IFRS Standards, so the parent can prepare its consolidated financial statements applying IFRS Standards. Therefore, a subsidiary applying the *IFRS for SMEs* Standard would generally need to maintain additional accounting records because of the recognition and measurement differences between the requirements in that Standard and IFRS Standards. Subsidiaries would prefer to use the recognition and measurement requirements in IFRS Standards, but with reduced disclosure requirements. Stakeholders said that such an approach would eliminate unnecessary costs for many subsidiaries in preparing general purpose financial statements, while maintaining information needed by the users of those subsidiaries' financial statements.

BC3 In adding the project to the research pipeline, the Board decided to investigate an approach that:

(a) is limited to subsidiaries that meet the definition of a small and medium-sized entity (SME) as defined in the *IFRS for SMEs* Standard—that is, subsidiaries that do not have public accountability; and

(b) uses the disclosure requirements from the *IFRS for SMEs* Standard as the starting point for developing the disclosure requirements in the reduced-disclosure IFRS Standard and tailoring those requirements if recognition or measurement requirements differ between IFRS

Standards and the *IFRS for SMEs* Standard (recognition and measurement differences).

BC4 With this approach, the Board recognised that subsidiaries that do not have public accountability are eligible to apply the *IFRS for SMEs* Standard. Accordingly, the Board can be satisfied that the disclosure requirements in the *IFRS for SMEs* Standard are sufficient to meet the needs of users of these subsidiaries' financial statements in the absence of recognition and measurement differences.

BC5 The aims of the research were to investigate whether:

(a) an IFRS Standard with reduced disclosure requirements for subsidiaries that are SMEs would be adopted by jurisdictions and applied by these subsidiaries; and

(b) the Board could feasibly develop such a Standard using the disclosure requirements in the *IFRS for SMEs* Standard with only minimal tailoring.

BC6 Based on its research, the Board concluded that if it were to develop an IFRS Standard with reduced disclosure requirements for subsidiaries that are SMEs, the Standard would be adopted and applied. Jurisdictions that permit or require subsidiaries that are SMEs to apply IFRS Standards have particularly strong demand for such a Standard. In those jurisdictions, an IFRS Standard with reduced disclosure requirements for subsidiaries that are SMEs would:

(a) save costs for preparers—subsidiaries could apply in their financial statements the same recognition and measurement requirements that their parent applied in its consolidated financial statements, avoiding the need for the subsidiaries to maintain additional accounting records, while applying reduced disclosure requirements in those subsidiaries' financial statements (see paragraphs BC96–BC98); and

(b) maintain the usefulness of the financial statements to the users of those subsidiaries' financial statements by providing only disclosures designed for these users, while eliminating disclosures not designed for them.

BC7 The Board concluded that it could feasibly develop an IFRS Standard using the disclosure requirements in the *IFRS for SMEs* Standard with only minimal tailoring. This conclusion is important because:

(a) the Board is satisfied that the disclosure requirements in the *IFRS for SMEs* Standard are sufficient to meet the needs of users of the subsidiaries' financial statements, given that the subsidiaries would be eligible to apply that Standard (see paragraph BC3(a)); and

(b) using the disclosure requirements in that Standard as the basis for the disclosure requirements would reduce the work that stakeholders and the Board would need to do.

Developing the Exposure Draft

BC8 The objective of the project is to develop proposals to permit eligible subsidiaries (see paragraph BC12) 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.

BC9 The Board concluded that it should develop a Standard that would:

(a) be part of IFRS Standards;

(b) be optional for eligible entities;

(c) facilitate application because disclosure requirements were developed by:

  (i) using the disclosure requirements in the *IFRS for SMEs* Standard when the recognition and measurement requirements in the *IFRS for SMEs* Standard were largely the same as those in IFRS Standards; and

  (ii) tailoring the disclosure requirements in the *IFRS for SMEs* Standard when a recognition and measurement difference arose, by applying to the disclosure requirements in IFRS Standards the principles for setting disclosure requirements in the *IFRS for SMEs* Standard;

(d) specify which disclosure requirements in other IFRS Standards would not be applicable; and

(e) be updated, if necessary, when the Board issued a new IFRS Standard or an amendment to an IFRS Standard (see paragraphs BC87–BC91).

BC10 The Board noted that establishing reduced disclosure requirements for eligible subsidiaries would not prevent such subsidiaries from providing additional information, subject to paragraph 30A of IAS 1 *Presentation of Financial Statements*.

BC11 When moving the project to its standard-setting programme, the Board decided to consider the scope of the project only after it had completed most of its analysis comparing the recognition and measurement requirements in IFRS Standards and the *IFRS for SMEs* Standard, from which it developed the disclosure requirements in the draft Standard.

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.

Developing the disclosure requirements

BC23 As noted in paragraph BC9(c), the Board concluded it would develop disclosure requirements for the draft Standard based on the disclosure requirements in the *IFRS for SMEs* Standard and apply the principles it used for setting disclosure requirements in the *IFRS for SMEs* Standard. The Board would apply the principles when it needs to tailor the disclosure requirements for the draft Standard when a recognition and measurement difference arises between the *IFRS for SMEs* Standard and IFRS Standards.

BC24 In developing the *IFRS for SMEs* Standard, the Board excluded disclosure requirements in IFRS Standards that:[1]

(a) relate to a topic omitted from the *IFRS for SMEs* Standard—for example, non-current assets held for sale;

(b) relate to an option omitted from the *IFRS for SMEs* Standard—for example, the optional revaluation model in IAS 38 *Intangible Assets*;

(c) relate to recognition and measurement principles that have been simplified in the *IFRS for SMEs* Standard—for example, that Standard requires all borrowing costs to be recognised as expenses whereas IAS 23 *Borrowing Costs* requires some to be capitalised; or

(d) are unnecessary to meet users' needs or for cost–benefit considerations.

BC25 As can be seen in paragraph BC24, some disclosure requirements are omitted because of recognition or measurement differences between the *IFRS for SMEs* Standard and IFRS Standards.

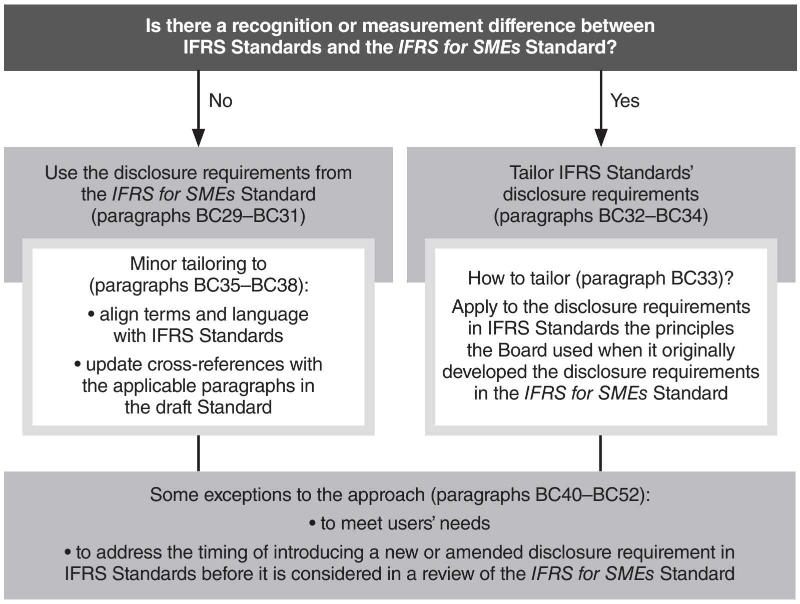
BC26 As a consequence of the recognition or measurement differences and because a subsidiary applying the draft Standard would be applying the recognition and measurement requirements in IFRS Standards, some tailoring of the disclosure requirements in the *IFRS for SMEs* Standard is necessary.

BC27 Minor tailoring to the disclosure requirements in the *IFRS for SMEs* Standard is also necessary in the absence of recognition and measurement differences (see paragraph BC35).

1 See paragraph BC156 of the Basis for Conclusions to the *IFRS for SMEs* Standard.

BC28 The Board's approach in developing the disclosure requirements for the draft Standard is summarised in Diagram 1.

Diagram 1—Developing disclosure requirements for the draft Standard



When recognition and measurement requirements are the same in the *IFRS for SMEs* Standard and IFRS Standards

BC29 The Board concluded that when there is no recognition or measurement difference, the disclosure requirements in the *IFRS for SMEs* Standard should be used in the draft Standard subject to minor tailoring (see paragraph BC35). As discussed in paragraphs BC13–BC14, subsidiaries eligible to apply the draft Standard are also eligible to apply the *IFRS for SMEs* Standard. The Board assessed users' needs and cost–benefit considerations when developing or updating the *IFRS for SMEs* Standard. This assessment of users' needs and cost–benefits equally applies to subsidiaries eligible to apply the draft Standard.

BC30 Disclosure requirements on a topic can differ between IFRS Standards and the *IFRS for SMEs* Standard even when the recognition and measurement requirements on that topic are the same. For example, the Board decided to exclude disclosure requirements from the *IFRS for SMEs* Standard for cost–benefit reasons or because they were unnecessary for meeting users' needs (see paragraph BC24(d)).

BC31 Differences between the disclosure requirements in IFRS Standards and the *IFRS for SMEs* Standard can also arise because of differences in the timing of when new or amended disclosure requirements are introduced to these Standards. In agreeing the approach for developing the disclosure requirements, the Board decided not to add to the draft Standard disclosure requirements that arose from differences in timing, because the disclosure requirements for subsidiaries that are SMEs applying the draft Standard should not be more extensive than the requirements for SMEs applying the *IFRS for SMEs* Standard when there is no recognition or measurement difference. However, after reviewing the outcome of this approach, the Board decided in some limited cases to propose—including in the draft Standard—some recent improvements to disclosure requirements in IFRS Standards, as discussed in paragraphs BC46 and BC51.

When recognition and measurement requirements differ between the *IFRS for SMEs* Standard and IFRS Standards

BC32 The Board concluded that it would be inappropriate to use the disclosure requirements in the *IFRS for SMEs* Standard without tailoring when recognition and measurement differences exist. As a result, the Board needed to tailor the disclosure requirements for:

(a) topics or options omitted from the *IFRS for SMEs* Standard (see paragraph BC24(a)–(b)). For example, the Board needed to add disclosure requirements for entities applying the revaluation model in IAS 38 as the *IFRS for SMEs* Standard does not include that accounting policy option and hence includes no related disclosure requirements.

(b) recognition or measurement requirements in IFRS Standards that are simplified for the *IFRS for SMEs* Standard. For example, Section 28 *Employee Benefits* of the *IFRS for SMEs* Standard contains a simplified method for measuring defined benefit obligations when an SME is unable, without undue cost or effort, to use the projected unit credit method. Section 28 also requires some disclosures by an entity that has used the simplified method. This method is unavailable to entities applying IFRS Standards, and so the Board excluded the related disclosure requirements when developing the draft Standard.

BC33 To determine the proposed disclosure requirements for topics or accounting policy options omitted from the *IFRS for SMEs* Standard, the Board started with the disclosure requirements for that topic or accounting policy option in IFRS Standards. The Board then applied the same principles it used when developing the disclosure requirements in the *IFRS for SMEs* Standard discussed in paragraph BC157 of its Basis for Conclusions; those principles are listed in paragraph BC34.

BC34 The final reason for excluding disclosure requirements from the *IFRS for SMEs* Standard arises from an assessment of the needs of users of the financial statements (see paragraph BC24), using the principles explained in paragraph BC157 of the Basis for Conclusions of the *IFRS for SMEs* Standard:

Assessing disclosures on the basis of users' needs was not easy, because users of financial statements tend to favour more, rather than fewer, disclosures. The Board was guided by the following broad principles:

(a) Users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

(b) Users of the financial statements of SMEs are particularly interested in information about liquidity and solvency. Disclosures in full IFRSs that provide this sort of information are necessary for SMEs as well.

(c) Information on measurement uncertainties is important for SMEs.

(d) Information about an entity's accounting policy choices is important for SMEs.

(e) Disaggregations of amounts presented in SMEs' financial statements are important for an understanding of those statements.

(f) Some disclosures in full IFRSs are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs.

Minor tailoring

BC35 In some cases, minor tailoring to the disclosure requirements in the *IFRS for SMEs* Standard is proposed. The draft Standard proposes such changes to align:

(a) terms and language with IFRS Standards (see paragraphs BC36–BC37); and

(b) references to the related requirements in the draft Standard (see paragraph BC38).

BC36 For example, Section 20 *Leases* of the *IFRS for SMEs* Standard uses the term 'contingent rent', a term used in IAS 17 *Leases*, on which Section 20 is based. However, IAS 17 has been replaced by IFRS 16 *Leases*, which uses the term 'variable lease payments'. A subsidiary applying the draft Standard would apply the recognition and measurement requirements in IFRS 16 to its leases. Consequently, when tailoring the Section 20 disclosure requirements for the draft Standard, 'contingent rent' has been replaced with 'variable lease payments', the term with which a subsidiary applying IFRS 16 would be familiar.

BC37 Another example is tailoring for differences in terminology between the *IFRS for SMEs* Standard and the IFRS Standards. For example, it is proposed to tailor for differences in wording between Section 28 of the *IFRS for SMEs* Standard and IAS 19 *Employee Benefits*. Section 28 states that an entity's 'defined benefit obligation' is the present value of its obligation under defined benefit plans at the reporting date. However, IAS 19 uses 'the present value of the defined benefit obligation' to refer to the same item. Paragraph 140 of IAS 19 requires a reconciliation of the present value of the defined benefit obligation.

For consistency with IAS 19 and for clarity, the disclosure requirement in paragraph 28.41(e) of the *IFRS for SMEs* Standard has been tailored for the draft Standard by adding 'the present value of' before 'the defined benefit obligation' (see paragraph 152(b) of the draft Standard).

BC38 Disclosure requirements in the draft Standard are arranged differently from their equivalents in the *IFRS for SMEs* Standard. Disclosure requirements in the draft Standard are arranged by IFRS Standard (see paragraphs 22–213 of the draft Standard). That arrangement facilitates the use of the draft Standard because the disclosure requirements for a topic would apply only when the related IFRS Standard applies (see paragraph 17 of the draft Standard). For example, when applying the *IFRS for SMEs* Standard to investment property measured using the cost model, any such investment property is within the scope of Section 17 *Property, Plant and Equipment*, not Section 16 *Investment Property*. However, when applying IFRS Standards, investment property remains within the scope of IAS 40 *Investment Property*, even when it is measured using the cost model in IAS 16 *Property, Plant and Equipment*. Therefore, to align with the scope of IAS 40, all of the disclosure requirements in the draft Standard about investment property are in the section relating to IAS 40 (see paragraphs 205–209 of the draft Standard).

Presentation versus disclosure requirements

BC39 In some IFRS Standards, presentation and disclosure requirements are combined. Furthermore, in some instances, the term 'disclosure' encompasses items presented in the primary financial statements (see paragraph 48 of IAS 1). In developing the draft Standard, the Board focused only on disclosure requirements that are appropriate for subsidiaries eligible to apply the draft Standard. Consequently, in developing the proposals in the draft Standard, the Board took presentation requirements to be requirements for information to be included in the primary financial statements, and regarded disclosure requirements as those relating to information included in the notes. In developing its proposals for the draft Standard, the Board regarded as disclosure requirements those requirements that permit information to be presented either in the primary financial statements or disclosed in the notes. The Board also concluded that any requirements in IFRS Standards to provide comparative information in an entity's primary financial statements (such as the requirements in paragraph 21 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*) would be part of presentation requirements rather than of disclosure requirements. In contrast, a requirement to provide comparative information when disclosing information in the notes would be a disclosure requirement and thus would be considered within the scope of the draft Standard. The Board also decided that presentation requirements in IFRS Standards would continue to apply to subsidiaries applying the draft Standard.

Exceptions to the approach to developing the disclosure requirements

BC40 In general, the proposed disclosure requirements in the draft Standard result from applying the approach set out in paragraphs BC23–BC39. However, after reviewing the results of that approach, in a limited number of cases, the Board made some exceptions to the approach relating to:

(a) disclosure objectives (paragraph BC41);

(b) investment entities (paragraphs BC42–BC45);

(c) changes in liabilities from financing activities (paragraph BC46);

(d) exploration for and evaluation of mineral resources (paragraphs BC47–BC49);

(e) defined benefit obligations (paragraph BC50);

(f) improvements to disclosure requirements in IFRS Standards (paragraph BC51); and

(g) additional disclosure requirements in the *IFRS for SMEs* Standard (paragraph BC52).

Disclosure objectives

BC41 Some IFRS Standards contain a disclosure objective followed by disclosure requirements designed to satisfy the objective. Such disclosure objectives are sometimes accompanied by an explicit requirement for a preparer to consider whether additional information beyond that specifically required would be needed to satisfy the disclosure objective. In considering the design of disclosure objectives, the Board decided that including disclosure objectives in the draft Standard might result in entities being compelled to provide the same disclosures as if they had not applied the draft Standard, which would be contrary to the project objective. Therefore, the Board proposed to exclude disclosure objectives from the draft Standard.

Investment entities

BC42 The *IFRS for SMEs* Standard does not require investment entities to measure their investment in subsidiaries at fair value through profit or loss, whereas IFRS Standards do. Consequently, there is a recognition and measurement difference.

BC43 In 2012, when the Board amended IFRS 10 to require investment entities to measure their investment in subsidiaries at fair value through profit or loss, it also amended IFRS 12 *Disclosure of Interests in Other Entities*. At that time, the Board considered whether all of the disclosure requirements in IFRS 12 should apply to investments in unconsolidated subsidiaries, associates and joint ventures of investment entities and concluded that only some should apply. The Board added to IFRS 12 paragraphs 19D(b) and 19E–19G of IFRS 12—disclosure requirements for investment entities about its unconsolidated subsidiaries and unconsolidated structured entities.

BC44 Paragraphs 19D(b) and 19E–19G of IFRS 12 are equivalent to those in paragraphs 31, 30, 14 and 16 of IFRS 12 for non-investment entities. Applying the agreed approach, outlined in paragraphs BC32–BC34, the draft Standard does not propose disclosure requirements similar to those in paragraphs 31, 30, 14 and 16 of IFRS 12 for non-investment entities.

BC45 The Board considered including in the draft Standard requirements based on paragraphs 19D(b) and 19E–19G of IFRS 12 to be applied by subsidiaries that are investment entities. However, to be consistent with the disclosure requirements in the draft Standard for non-investment entities, the Board is not proposing requirements similar to those in paragraphs 19D(b) and 19E–19G of IFRS 12.

Changes in liabilities from financing activities

BC46 The Board added disclosure requirements to IAS 7 *Statement of Cash Flows* about changes in liabilities from financing activities (paragraphs 44A–44E of IAS 7) after the 2015 update of the *IFRS for SMEs* Standard. The approach outlined in paragraphs BC29–BC31 would not result in disclosure requirements being added to the draft Standard. However, based on feedback on the Second Comprehensive Review of the *IFRS for SMEs* Standard from users of SMEs' financial statements about the importance of this information, the Board is proposing to include a simplified version of those requirements in the draft Standard (see paragraph 130 of the draft Standard).

Exploration for and evaluation of mineral resources

BC47 The *IFRS for SMEs* Standard requires an entity to apply Section 17 *Property, Plant and Equipment* or Section 18 *Intangible Assets* of the *IFRS for SMEs* Standard to exploration for and evaluation of mineral resources according to their nature but has no explicit disclosure requirements for exploration for and evaluation of mineral resources.

BC48 Paragraphs 23–25 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* set out disclosure requirements about the amounts recognised in financial statements arising from the exploration for and evaluation of mineral resources. Paragraph 25 of IFRS 6 requires exploration and evaluation assets to be disclosed as a separate class of assets. The Board excluded this requirement from the *IFRS for SMEs* Standard because it would be difficult to include industry-specific guidance in the *IFRS for SMEs* Standard and, at the same time, keep it user-friendly for 'simple SMEs'.

BC49 In developing the disclosure requirements in the draft Standard, the Board decided this reasoning would not necessarily apply to subsidiaries applying the draft Standard. In the Board's view, disclosing exploration and evaluation assets as a separate class of assets would be useful to users of the financial statements of subsidiaries applying the draft Standard. Therefore, the Board is proposing to include paragraph 25 of IFRS 6 in the draft Standard (see paragraph 41 of the draft Standard).

Defined benefit obligations

BC50 Paragraph 28.41(e) of the *IFRS for SMEs* Standard requires a reconciliation of the opening and closing balances of a defined benefit obligation, showing separately benefits paid and all other changes. IAS 19 requires a reconciliation of the net defined liability (asset) showing a separate reconciliation of the present value of the defined benefit obligation. Furthermore, IAS 19 requires more detail about the reconciling items to be disclosed (see paragraphs 140–141 of IAS 19). The approach outlined in paragraphs BC29–BC31 would not result in tailoring paragraph 28.41(e) of the *IFRS for SMEs* Standard. However, the Board is proposing requiring more reconciling items to be disclosed (see paragraph 152(b) of the draft Standard). In the Board's view, its proposal would provide useful information to users of the financial statements of entities applying the draft Standard because such disaggregation is important in understanding the change in the present value of the entity's defined benefit obligations. Subject to an assessment of materiality, the more detailed reconciliation would also be required for group reporting purposes.

Improvements to disclosure requirements in IFRS Standards

BC51 If the recognition and measurement requirements in IFRS Standards are the same as those in the *IFRS for SMEs* Standard, the approach outlined in paragraphs BC29–BC31 would not result in tailoring the disclosure requirements in the *IFRS for SMEs* Standard for improvements made to the disclosure requirements in IFRS Standards since the *IFRS for SMEs* Standard was updated. The Board is, however, proposing in the draft Standard some of those recent improvements to disclosure requirements in IFRS Standards. The Board took the view that users of subsidiaries' financial statements could also benefit from the improved disclosure requirements and that their inclusion is supported by the principles used to develop the disclosure requirements in the *IFRS for SMEs* Standard (as outlined in paragraph BC34). The proposed disclosure requirements are from:

(a) IFRS 7 *Financial Instruments: Disclosures* (see paragraphs 42, 50, 55, 57, and 60 of the draft Standard);

(b) IFRS 13 *Fair Value Measurement* (see paragraph 80 of the draft Standard);

(c) IFRS 15 *Revenue from Contracts with Customers* (see paragraphs 93–94 and 96 of the draft Standard);

(d) IFRS 16 (see paragraph 100(b)–(c) of the draft Standard); and

(e) IAS 1 (see paragraphs 122–124 of the draft Standard).

Additional disclosure requirements in the *IFRS for SMEs* Standard

BC52 The *IFRS for SMEs* Standard contains some disclosure requirements that are additional to those in IFRS Standards. Some of those disclosure requirements are based on requirements included in IFRS Standards when the *IFRS for SMEs* Standard was developed, but have since been removed from IFRS Standards or amended (discussed in paragraph BC52(a)–(c)). Others have no equivalent in IFRS Standards (discussed in paragraph BC52(d)–(e)). The Board is proposing to:

(a) exclude from the draft Standard the disclosure requirements in paragraphs 28.41(g) and 15.19(d) of the *IFRS for SMEs* Standard about employee defined benefit plans and joint ventures, which were based on requirements that the Board has since replaced in IFRS Standards;

(b) include in the draft Standard an adapted version of the requirement in paragraph 20.14 of the *IFRS for SMEs* Standard, to require subsidiaries applying the Standard to disclose selected information about right-of-use assets consistent with the information required by IFRS 16 (see paragraphs 100(a) and 101 of the draft Standard);

(c) include in the draft Standard the reliefs in paragraphs 17A and 18A of IAS 24 *Related Party Disclosures*, to enable subsidiaries applying the draft Standard to benefit from those same reliefs when applying the requirement based on paragraph 33.7 of the *IFRS for SMEs* Standard (see paragraph 166 of the draft Standard) to disclose information about key management personnel compensation (see paragraphs 167–168 of the draft Standard);

(d) include in the draft Standard the disclosure requirements in paragraphs 28.42–28.43 of the *IFRS for SMEs* Standard about other long-term employee benefits and termination benefits because the Board evaluated that if that information is useful to users of SME financial statements then it would also be equally useful to users of subsidiaries' financial statements applying the draft Standard (see paragraphs 158–159 of the draft Standard); and

(e) include in the draft Standard an adapted version of the requirement in paragraph 3.25 of the *IFRS for SMEs* Standard to disclose the basis on which the entity prepared any segment information it has chosen to provide for similar reasons noted in paragraph BC52(d) (see paragraph 213 of the draft Standard).

Specific disclosure requirements

BC53 When developing the proposals in the draft Standard, the Board considered:

(a) a statement of compliance with the draft Standard (paragraphs BC54–BC56);

(b) disclosure requirements about the transition to new or amended IFRS Standards (paragraphs BC57–BC59);

(c) disclosure requirements about changes in accounting policies, changes in accounting estimates and disclosures about correcting prior period errors (paragraph BC60);

(d) disclosure requirements about insurance contracts (paragraphs BC61–BC64);

(e) disclosure requirements about earnings per share and about operating segments (paragraphs BC65–BC66); and

(f) paragraph 95 of IFRS 13 (paragraph BC67).

Statement of compliance with the draft Standard

BC54 The Board is proposing that the application of the draft Standard be voluntary. Consequently, the financial statements of two similar subsidiaries that apply IFRS Standards could be different if only one applied the draft Standard. The two subsidiaries' financial statements are unlikely to provide the same disclosures, but both financial statements would still comply with IFRS Standards.

BC55 In the Board's view, disclosing that a subsidiary has applied the draft Standard would provide useful information to users of the subsidiary's financial statements and would aid comparability. The Board is therefore proposing that a subsidiary applying the draft Standard be required to state that fact.

BC56 To further aid comparability and understandability, the Board is proposing that the statement that an entity has applied the draft Standard (see paragraph 22 of the draft Standard) be located with the statement required by paragraph 110 of the draft Standard that a subsidiary's financial statements comply with IFRS Standards. Paragraph 110 of the draft Standard replicates paragraph 16 of IAS 1 *Presentation of Financial Statements* requiring an entity to make an explicit and unreserved statement that its financial statements comply with IFRS Standards.

Disclosure requirements about the transition to new or amended IFRS Standards

BC57 A new or amended IFRS Standard typically includes transition provisions that apply on initial application of that new or amended IFRS Standard. Occasionally, those transition provisions include disclosure requirements about an entity's transition to the new or amended IFRS Standard, which supplement the other disclosure requirements in that IFRS Standard. The disclosure requirements in the transition provisions also supplement, and occasionally replace, the disclosure requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

BC58 The Board is proposing that disclosure requirements about the transition to a new or amended IFRS Standard set out in those IFRS Standards apply to entities that apply the draft Standard. This is because they are specific to that transition and are relevant only on initial application of that new or amended IFRS Standard. Therefore, no disclosure requirements about transition provisions in other IFRS Standards are included in Appendix A of the draft Standard, which lists the disclosure requirements in other IFRS Standards that are replaced when a subsidiary applies the draft Standard (see paragraph BC69).

BC59 Disclosure requirements from IAS 8 have been added into the draft Standard (see paragraph BC60). Paragraph 134 of the draft Standard is equivalent to paragraph 28 of IAS 8, and applies when an entity changes its accounting policy as a result of an initial application of a new or amended IFRS Standard. As such, consequential amendments about transition provisions of IFRS 7 and IFRS 17 *Insurance Contracts* are proposed (see Appendix C of the draft Standard).

Disclosure requirements about changes in accounting policies, changes in accounting estimates and disclosures about correcting prior period errors

BC60 IAS 8 and Section 10 of the *IFRS for SMEs* Standard prescribe the criteria for selecting and changing accounting policies, together with accounting requirements and disclosure requirements for changes in accounting policies, changes in accounting estimates and corrections of errors. Section 10 is based on IAS 8, and the requirements are largely aligned. However, IFRS Standards and the *IFRS for SMEs* Standard are maintained differently. An IFRS Standard is amended when a matter is added to the Board's work plan and can occur more frequently, for example, as a result of narrow-scope amendments. The Board amends the *IFRS for SMEs* Standard periodically, no more frequently than every three years, usually after a comprehensive review. This difference affects the disclosure requirements in Section 10, so the Board decided that the disclosure requirements in IAS 8 should remain applicable for subsidiaries applying the draft Standard.

Disclosure requirements about insurance contracts

BC61 The Board considered whether to propose reduced disclosure requirements in relation to IFRS 17 in the draft Standard.

BC62 The Board considered whether entities that issue insurance contracts within the scope of IFRS 17 would not be publicly accountable and therefore eligible to apply the draft Standard. An entity is publicly accountable if 'it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this … criterion)' (see paragraph 1.3(b) of the *IFRS for SMEs* Standard and paragraph 7(b) of the draft Standard).

BC63 The Board found that some entities that issue insurance contracts within the scope of IFRS 17 could be eligible to apply the draft Standard. For example, a subsidiary that insures only the risks of its parent or its fellow subsidiaries (sometimes called a 'captive insurer'), and is not otherwise publicly accountable, might be eligible to apply the draft Standard. Similarly, some non-insurance entities that are permitted to apply the draft Standard might issue insurance contracts within the scope of IFRS 17.

BC64 The Board considered the following matters and decided not to propose reduced disclosure requirements for IFRS 17:

(a) IFRS 17 introduces a model for accounting for insurance contracts which is supported by its disclosure requirements. If a subsidiary has material insurance contracts in the early years of applying IFRS 17, the interests of users of the financial statements may be best served by full IFRS 17 disclosures. Providing these disclosures should facilitate users' understanding of the new model for insurance accounting.

(b) proposing reduced disclosure requirements only after entities have applied IFRS 17 for some time would allow users to increase their familiarity with the new model for insurance accounting and its effect on an entity's financial statements while allowing the Board to assess the effectiveness of the disclosure requirements before proposing reduced disclosure requirements.

(c) the Board discussed possible approaches to reducing the disclosure requirements associated with IFRS 17. Based on that initial analysis, the Board concluded that if it were to propose reduced disclosure requirements for entities that are issuers of insurance contracts within the scope of IFRS 17 and permitted to apply the draft Standard, any such proposals would likely result in a limited reduction of the disclosure requirements in IFRS 17.

(d) the Board's approach in developing the disclosure requirements for the draft Standard considers users' needs (see paragraphs BC29–BC38). The Board observed that although insurance regulators are not the primary users of financial statements (as described in the *Conceptual Framework for Financial Reporting*), the disclosures required by IFRS 17 may help insurance regulators in undertaking enforcement activities, especially when IFRS 17 is first effective.

Disclosure requirements about earnings per share and operating segments

BC65 Given the scope of IAS 33 *Earnings per Share*, a subsidiary permitted to apply the draft Standard is not required to apply IAS 33. A subsidiary applying the draft Standard may, however, choose to disclose earnings per share. Paragraph 3 of IAS 33 states that if an entity discloses earnings per share, it shall calculate and disclose earnings per share by applying that Standard. The Board therefore considered whether to propose disclosure requirements in the draft Standard for when a subsidiary chooses to disclose earnings per share. The Board concluded that if a subsidiary applying the draft Standard has determined that disclosing earnings per share is relevant to users of its financial statements, the related disclosures are also relevant. Consequently, the Board decided neither to propose disclosure requirements in the draft Standard for when an entity chooses to disclose earnings per share nor to exempt an entity from the IAS 33 disclosure requirements. Therefore, if a subsidiary applying the draft Standard chose to disclose earnings per share in its financial statements, it would be required to apply the disclosure requirements in IAS 33.

BC66 Similarly, given the scope of IFRS 8 *Operating Segments*, a subsidiary permitted to apply the draft Standard is not required to apply IFRS 8. However, whereas paragraph 3 of IAS 33 requires an entity that applies IFRS Standards to apply the requirements in IAS 33 if it chooses to disclose earnings per share, paragraph 3 of IFRS 8 permits an entity that is not required to apply IFRS 8 to disclose information about segments that does not comply with IFRS 8. In such circumstances, IFRS 8 prohibits the entity from describing the information as segment information. The Board decided the draft Standard should be consistent with the *IFRS for SMEs* Standard, that requires an entity to describe the basis for preparing and disclosing such information (see paragraph 213 of the draft Standard). The Board is not proposing to exempt a subsidiary from IFRS 8's disclosure requirements if it chooses to apply IFRS 8 (that is, a subsidiary applying the draft Standard could choose to apply IFRS 8 and, if so, would be required to apply the related disclosure requirements in that Standard). The Board is also proposing in the draft Standard to replicate the requirement in paragraph 3 of IFRS 8 that an entity be prohibited from describing information as segment information if the entity has not applied IFRS 8.

Paragraph 95 of IFRS 13

BC67 The Board considered whether to include in the draft Standard the requirement in paragraph 95 of IFRS 13 for an entity applying the draft Standard to follow consistently its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred. However, the Board concluded that doing so was unnecessary, because paragraph 13 of IAS 8 requires consistent application of accounting policies.

Structure of the draft Standard

BC68 When a subsidiary that has elected to apply the draft Standard has applied an IFRS Standard to account for a transaction, other event or condition, the subsidiary would apply the disclosure requirements in the draft Standard set out under the subheading of that IFRS Standard. For example, the disclosure requirements for inventories are set out under the heading IAS 2 *Inventories*. This approach avoids the need to reproduce the scope of each IFRS Standard within the draft Standard. Disclosure requirements are organised by IFRS Standard.

BC69 An entity applying the draft Standard would apply the proposed disclosure requirements instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A of the draft Standard.

BC70 If a disclosure requirement in an IFRS Standard is not listed in Appendix A of the draft Standard, it remains applicable to an entity applying the draft Standard. The disclosure requirements that remain applicable are generally stated in a footnote to the subheading of the IFRS Standard to which they relate. Examples of disclosure requirements not listed in Appendix A and that continue to apply 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. For example, paragraph 99 of IAS 1 which requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity.

(b) disclosure requirements embedded in paragraphs that include recognition, measurement or presentation requirements. For example, paragraph 25 of IAS 1 requires an entity to assess its ability to continue as a going concern along with disclosures required in relation to this assessment.

(c) disclosure requirements that, as stated in paragraph 48 of IAS 1, use the term 'disclosure' in a broad sense, encompassing items presented on the face of the primary financial statements. For example, paragraph 33(a) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an entity to 'disclose a single amount in the statement of comprehensive income comprising the total of…' when it is a presentation requirement.

Transition to (and from) the draft Standard

BC71 Regarding a subsidiary's transition to and from the draft Standard, the Board considered:

(a) whether the draft Standard should contain transition provisions that apply when a subsidiary first applies the draft Standard (paragraphs BC72–BC74);

(b) whether a subsidiary should be permitted to re-elect to apply the draft Standard (paragraphs BC75–BC77);

(c) what comparative information should be required if a subsidiary applied the draft Standard in the current period but did not apply the draft Standard in the preceding period (paragraphs BC78–BC79);

(d) what comparative information should be reported if a subsidiary, applying IFRS Standards in the preceding and current periods, applied the draft Standard in the preceding period but not in the current period (paragraphs BC80–BC81);

(e) whether electing or revoking the election to apply the draft Standard requires a subsidiary to apply IAS 8 (paragraphs BC82–BC83); and

(f) whether and how electing or revoking the election to apply the draft Standard, or otherwise ceasing to apply the draft Standard affects a subsidiary's application of IFRS 1 (paragraphs BC84–BC86).

Should the draft Standard contain transition provisions?

BC72 Paragraphs BC84–BC86 discuss how the draft Standard relates to IFRS 1. Paragraphs BC73–BC74 discuss whether the draft Standard should include transition provisions for a subsidiary that applied IFRS Standards in the preceding period and applies the draft Standard for the first time in the current period.

BC73 When such a subsidiary applies the draft Standard for the first time, its financial statements will contain fewer disclosures than in the preceding period. The subsidiary might need to restate some comparative information to be consistent with the information reported in the current period. The subsidiary would also be required to disclose that it has applied the draft Standard (see paragraph BC55).

BC74 Considering the effects of applying the draft Standard for the first time on a subsidiary's financial statements as discussed in paragraph BC73 and noting that the subsidiary would have applied IFRS 1 in a previous period, the Board decided not to propose transition provisions or disclosure requirements in the draft Standard for a subsidiary that had applied IFRS Standards in a preceding period.

Re-electing to apply the draft Standard

BC75 The Board is proposing that application of the draft Standard be optional for subsidiaries eligible to apply it (see paragraph BC9(b)). Accordingly, a subsidiary might elect to apply the draft Standard and subsequently revoke that election, or cease to be eligible to apply the draft Standard. The Board considered whether such a subsidiary should be permitted to reapply the draft Standard in a future period, assuming that the entity is otherwise eligible.

BC76 Permitting a subsidiary to apply the draft Standard again after previously revoking that election could help a subsidiary that moves from a reporting group that prepares its financial statements applying IFRS Standards to a group that does not, but which then subsequently adopts IFRS Standards, for example.

BC77 The Board noted that permitting subsidiaries to apply the draft Standard again after previously revoking that election would also be consistent with IFRS 1, which permits entities to apply that Standard more than once in some circumstances. The Board also found that the needs of users of financial statements were not affected. Consequently, the Board found no reason to prohibit subsidiaries from electing to apply the draft Standard for the 'first time' more than once.

Comparative information

BC78 The Board considered what comparative information should be required if a subsidiary elects to apply the draft Standard in the current period, having done so in the previous period. The Board noted such a subsidiary would provide fewer disclosures in its financial statements in the current period than in the preceding period.

BC79 The Board decided there is no need to require additional disclosures, beyond the requirement in the draft Standard for the subsidiary to state it has applied the Standard, as the disclosure requirements developed for the draft Standard are designed to meet users' needs, (see paragraphs BC23–BC39). Therefore, the Board concluded that such a subsidiary should apply the disclosure requirements in the draft Standard to determine the disclosures required for the immediately preceding comparative period (see paragraph 10 of the draft Standard).

BC80 The Board also considered what comparative information should be required if a subsidiary revoked its election to apply the draft Standard in the current period; that is the subsidiary applied the draft Standard in the preceding period but not in the current period. The Board found that such a subsidiary would probably be required to provide more disclosures in its financial statements in the current period than in the preceding period. The Board noted that in accordance with IAS 1 the subsidiary is required to disclose comparative information. Therefore, the subsidiary would apply the disclosure requirements in other IFRS Standards, including the requirement for comparative information. This treatment would be consistent with IFRS 1, which does not provide an exemption from disclosing comparative amounts in the notes in an entity's first IFRS financial statements.

BC81 Therefore, the Board concluded that the draft Standard should state that in the situation set out in paragraph BC80, a subsidiary shall provide comparative information for all amounts reported in the current period's financial statements unless another IFRS Standard requires or permits otherwise, and the fact that the draft Standard did not require the disclosure of amounts in the preceding period that are disclosed in the current period is not a reason to omit comparative information (see paragraph 11 of the draft Standard).

Whether electing or revoking the election to apply the draft Standard requires a subsidiary to apply IAS 8

BC82 In its deliberations, the Board considered the requirements in IAS 8 on changes in accounting policies. The Board noted that a subsidiary need not apply those requirements when it elects to apply the draft Standard or revokes that election.

BC83 Further, the Board considered the interaction of electing or revoking the election to apply the draft Standard with the requirements to present a statement of financial position in circumstances described in paragraphs BC78 and BC80 as at the beginning of the preceding period (see paragraph 40A of IAS 1). The Board noted that a 'third statement of financial position' is unnecessary because it would not change the recognition or measurement of items or amounts presented in the primary financial statements.

Interaction with IFRS 1

BC84 The Board considered whether and how a subsidiary that elects to apply the draft Standard or revokes that election, or otherwise ceases to apply the draft Standard, would apply IFRS 1. A subsidiary that applied a national GAAP or the *IFRS for SMEs* Standard in a preceding period and elects to apply the draft Standard in the current period is required to apply IFRS 1 when it first applies the draft Standard because those reporting frameworks are not IFRS Standards. In particular, the *IFRS for SMEs* Standard has different recognition and measurement requirements for some topics compared with IFRS Standards. IFRS 1 applies to an entity's first IFRS financial statements (and to each interim financial report that an entity presents for part of the period covered by its first IFRS financial statements). IFRS 1 defines an entity's first IFRS financial statements as:

> [t]he first annual financial statements in which an entity adopts International Financial Reporting Standards (IFRSs), by an explicit and unreserved statement of compliance with IFRSs.

BC85 The Board, in paragraph 22 of the draft Standard, is proposing that a subsidiary that applies the draft Standard disclose that fact in the same note as the statement of compliance required by paragraph 110 of the draft Standard (which replicates the statement of compliance required by paragraph 16 of IAS 1). The Board concluded that application of the draft Standard does not preclude a subsidiary stating compliance with IFRS Standards and that disclosing application of the draft Standard in the same note as the statement of compliance is *not* a qualification of the statement of compliance. The Board therefore decided that:

(a) if a subsidiary adopts IFRS Standards after the Board issues the draft Standard, it may elect to apply the draft Standard in its first IFRS financial statements. In that situation, the subsidiary would apply IFRS 1, except for the disclosure requirements in IFRS 1 about the entity's transition to IFRS Standards. The subsidiary would instead apply the disclosure requirements in the draft Standard relating to IFRS 1 (see paragraphs 23–30 of the draft Standard).

(b) if a subsidiary adopted IFRS Standards in a prior period and its financial statements for the immediately preceding period contained an explicit and unreserved statement of compliance with IFRS Standards, the financial statements for the period in which the subsidiary first applies the draft Standard would not be its first IFRS financial statements. In this case, commencing application of the draft Standard would not result in the subsidiary being within the scope of IFRS 1.

(c) if a subsidiary applied the draft Standard in the immediately preceding period and its financial statements for that period contained an explicit and unreserved statement of compliance with IFRS Standards, the financial statements for the period in which the subsidiary ceases to apply the draft Standard but continues to apply IFRS Standards would not be its first IFRS financial statements. Therefore, ceasing to apply the draft Standard would not in itself result in the subsidiary being a first-time adopter of IFRS Standards. In other words, ceasing to apply the draft Standard would not result in the subsidiary being within the scope of IFRS 1.

BC86 For the avoidance of doubt, the Board decided to explain the interaction with IFRS 1 in the draft Standard (see paragraphs 12–14 of the draft Standard).

Maintaining the draft Standard

BC87 If the Board finalises the proposals in the Exposure Draft and issues the draft Standard, it would need to decide when to update the draft Standard for any new disclosure requirements or amendment to disclosure requirements arising from new IFRS Standards or amendments to IFRS Standards.

BC88 One approach would be for the Board to update the draft Standard periodically, similar to the way it updates the *IFRS for SMEs* Standard (no more frequently than every three years, usually after a comprehensive review). However, that approach would delay the benefits for subsidiaries applying the draft Standard. For example, if the Board were to issue a new IFRS Standard containing new disclosure requirements, subsidiaries applying the draft Standard would need to apply all of those new disclosure requirements until the draft Standard is updated (as Appendix A of the draft Standard would not list those new disclosure requirements).

BC89 Alternatively, the Board could propose amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Standard. Such an approach would require the Board to consider proposals to amend the draft Standard in the same period that amendments to IFRS Standards are being considered.

BC90 To minimise the need for updating the draft Standard, the Board could amend the draft Standard only after the Board has issued a new IFRS Standard or amendment to an IFRS Standard. This approach would delay the benefit of any reduced disclosure requirements that the Board might subsequently propose for subsidiaries applying the draft Standard, until the Board has updated the draft Standard. This approach could result in subsidiaries applying the draft Standard providing disclosures required by the new or amended IFRS Standard that are subsequently not required when the draft Standard is updated.

BC91 The Board decided it would consider proposing amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Standard to facilitate consideration of the appropriate amendments to the draft Standard when the related amendments to IFRS Standards are being discussed.

Potential effects of the proposals

BC92 New or amended IFRS Standards, which change financial reporting requirements, entail costs justified by the benefits of the better information they lead entities to provide. However, the draft Standard would result in ongoing reduced costs for those subsidiaries applying it because it is not changing recognition and measurement requirements in IFRS Standards; it provides some subsidiaries with the option to provide fewer disclosures, tailored for their users' needs while applying IFRS Standards. Some subsidiaries may incur initial implementation costs, but these are expected to be outweighed by the ongoing savings (see paragraphs BC95–BC98).

BC93 The Board added the project to its work plan in response to feedback from preparers. The project aims to reduce the costs of preparing financial statements for subsidiaries permitted to apply the draft Standard—subsidiaries without public accountability with a parent that produces consolidated financial statements that comply with IFRS Standards. At present, a subsidiary that is required to provide information for consolidation to a parent entity that applies IFRS Standards would need to maintain additional accounting records when, in its own financial statements, it applied either the *IFRS for SMEs* Standard or a national GAAP whose recognition and measurement requirements differ from those in IFRS Standards. If the subsidiary applied IFRS Standards in its financial statements to minimise consolidation costs, it would be required to apply the disclosure requirements in IFRS Standards, although some disclosures provide information not intended for users of those financial statements if the subsidiary is not publicly accountable. The Board is seeking to reduce costs by eliminating the disclosure requirements that provide information not intended for such users of financial statements and eliminate the need to maintain additional accounting records. The Board expects that the draft Standard will retain the usefulness of the financial statements for the users of these subsidiaries' financial statements as the approach taken by the Board in developing the disclosure requirements considered users' needs.

BC94 The effects analysis for the draft Standard differs from that undertaken by the Board when an IFRS Standard is required to be applied, because the draft Standard is optional. A preparer electing to apply the draft Standard is therefore able to satisfy itself that the benefits of applying the draft Standard outweigh the costs.

BC95 The first-time implementation costs of applying the draft Standard would depend on whether a subsidiary's financial statements were previously prepared applying:

(a) a national GAAP (paragraph BC96);

(b) the *IFRS for SMEs* Standard (paragraph BC97); or

(c) IFRS Standards (paragraph BC98).

BC96 A subsidiary that applied a national GAAP and elects to apply the draft Standard would incur first-time implementation costs (including the cost as a first-time adopter of IFRS Standards). These costs would depend on the differences between the national GAAP that the subsidiary uses and IFRS Standards including the draft Standard. The ongoing benefits are expected to outweigh the implementation costs, because the subsidiary is no longer required to maintain additional accounting records. That is, efficiencies should arise when the parent and the subsidiary apply the same reporting standards.

BC97 A subsidiary that applied the *IFRS for SMEs* Standard and elects to apply the draft Standard would incur first-time implementation costs because recognition and measurement requirements differ between IFRS Standards and the *IFRS for SMEs* Standard, and there are some differences in the disclosure requirements between the draft Standard and the *IFRS for SMEs* Standard. These costs are expected to be outweighed by the benefits of the subsidiary not being required to maintain additional accounting records.

BC98 A subsidiary that applies IFRS Standards and elects to apply the draft Standard would benefit from significantly fewer disclosure requirements. Such a subsidiary could incur first-time implementation costs—for example, in identifying which disclosures are no longer required. However, these costs would be outweighed by the expected ongoing benefits of the subsidiary not having to produce the identified disclosures, including the associated operational costs a subsidiary would save from having to develop and maintain processes around preparation of those disclosures.

BC99 The Board's approach is intended to set disclosure requirements in the draft Standard that are sufficient to meet the needs of users of the subsidiary's financial statements. In the circumstances described in paragraphs BC96–BC98, if a parent requires information for its consolidated financial statements that the draft Standard does not require a subsidiary to disclose, the need to provide that information is unchanged by the draft Standard because the subsidiary would be required to provide such information regardless of the accounting standards it applies.

BC100 The Board has developed the disclosure requirements in a manner that should not result in the loss of useful information for the users of the subsidiary's financial statements. By considering paragraph BC157 of the *IFRS for SMEs* Standard in tailoring the disclosure requirements, the Board has considered the needs of users of the financial statements of subsidiaries within the proposed scope (see paragraphs BC32–BC34).

BC101 The Board also noted that in developing the disclosure requirements:

(a) lenders and other creditors to a subsidiary can request information beyond that in the subsidiary's financial statements. Lenders and other creditors can request such additional information regardless of whether financial statements are prepared applying IFRS Standards with full disclosures, the *IFRS for SMEs* Standard or a national GAAP.

(b) education and translation costs are inherent in applying any new or amended IFRS Standard, including implementing the (draft) Standard. In the long term, the benefits of application would justify these costs. The Board's approach to developing the requirements in the draft Standard should minimise such costs, because the approach uses disclosure requirements in the *IFRS for SMEs* Standard and in IFRS Standards as the basis for the proposed disclosure requirements.

(c) fewer disclosures would be provided in the financial statements subject to audit, so the audit effort should be reduced compared to financial statements applying IFRS Standards without applying the draft Standard. The auditor could also leverage on the work performed for the statutory audit (for example, the subsidiary's reporting in its own financial statements) and group reporting (for example, reporting to the parent company).

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.

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