

STAFF PAPER

December 2020

IASB[®] Meeting

Project	Disclosure Initiative—Subsidiaries that are SMEs		
Paper topic	Cover paper		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards or the *IFRS for SMEs*[®] Standard do not purport to set out acceptable or unacceptable application of IFRS Standards or the *IFRS for SMEs* Standard. Technical decisions are made in public and reported in IASB[®] *Update*.

Purpose of this paper

1. This paper:
 - (a) describes the background to the *Disclosure Initiative—Subsidiaries that are SMEs* project (paragraphs 2–6);
 - (b) introduces the papers to be discussed at this month’s meeting (paragraphs 7–10); and
 - (c) sets out next steps in the Disclosure Initiative—Subsidiaries that are SMEs project (paragraph 11).

Project background

2. The International Accounting Standards Board (Board) added the project to its work plan following suggestions, received in response to the Request for Views: *2015 Agenda Consultation*, that the Board permits subsidiaries to apply IFRS Standards with reduced disclosure requirements. Respondents to the Request for Views argued that applying the *IFRS for SMEs* Standard is unattractive to some of these subsidiaries because they need to report to their parent, for consolidation purposes, applying the recognition and measurement requirements of IFRS Standards.

For their own financial statements, those subsidiaries would prefer to use the same recognition and measurement requirements as IFRS Standards, but with less onerous disclosure requirements.

3. The objective of the project is to develop an IFRS Standard (the reduced-disclosure IFRS Standard) that will permit subsidiaries that are small and medium-sized entities (SMEs) to apply the recognition and measurement principles in IFRS Standards but with reduced disclosure requirements. In adding the project to the research pipeline the Board decided on an approach limited to:
 - (a) subsidiaries that meet the description of SMEs set out in Section 1 of the *IFRS for SMEs* Standard. The description is included in Appendix A to this paper.
 - (b) using the disclosure requirements from the *IFRS for SMEs* Standard as the starting point for the disclosure requirements in the reduced disclosure IFRS Standard.

4. One of the reasons for this approach is that these subsidiaries would be eligible to apply the *IFRS for SMEs* Standard and so the Board could be satisfied that the disclosure requirements from the *IFRS for SMEs* Standard would be sufficient to meet users' information needs when there is no recognition and measurement difference.

5. Similarly, when there are recognition and measurement differences, applying the principles in paragraph BC157 of the Basis for Conclusions of the *IFRS for SMEs* Standard to identify adaptations to the disclosure requirements of the *IFRS for SMEs* Standard, the Board could be satisfied that the disclosure requirements in the reduced-disclosure IFRS Standard would be sufficient to meet users' information needs. Paragraph BC157 of the *IFRS for SMEs* Standard is also included in Appendix A to this paper.

6. The Board's tentative decisions to date are summarised in Appendix B to this paper.

Agenda papers for December 2020 meeting

7. At this month's meeting, the Board will continue discussing matters arising from the staff analysis of adaptations to the reduced disclosure requirements and Board members' review. The agenda papers for this meeting are organised as follows:

Agenda paper 31A: *IFRS 17 Insurance Contracts*

Agenda paper 31B: Transition to the reduced-disclosure IFRS Standard

Agenda paper 31C: Scope of the reduced-disclosure IFRS Standard

Agenda Paper 31A IFRS 17 Insurance Contracts

8. Agenda Paper 31A considers whether, if the Board decides to propose a reduced-disclosure IFRS Standard, the proposals should include disclosure requirements for insurance contracts within the scope of IFRS 17. The paper asks the Board for a decision.

Agenda paper 31B Transition to the reduced-disclosure IFRS Standard

9. Agenda Paper 31B discusses how a subsidiary would make the transition to a possible reduced-disclosure IFRS Standard and asks the Board for decisions. Three matters are addressed:
- (a) first-time application of the reduced-disclosure IFRS Standard;
 - (b) could the reduced disclosure IFRS Standard be applied for the 'first time' more than once; and
 - (c) whether first-time application of the reduced-disclosure IFRS Standard is an accounting policy choice.

Agenda paper 31C Scope of the reduced-disclosure IFRS Standard

10. Agenda Paper 31C examines the scope of a possible reduced disclosure IFRS Standard and whether the scope should remain subsidiaries that are SMEs or should be expanded to a wider group of entities and, if so, which entities. This paper is for information only and the staff plan to ask the Board for a decision in January 2021.

Next steps

11. At the January 2021 meeting, the staff plan to discuss:
 - (a) other matters arising from developing the staff analysis of adaptations to the reduced disclosure requirements including asking the Board for a decision whether to modify the scope of the project; and
 - (b) whether the due process document on the project should be a discussion paper or an exposure draft and request permission for the staff to begin the balloting process.

Appendix A—Paragraph BC157 of the *IFRS for SMEs* Standard and the description of small and medium-sized entities from Section 1 of the *IFRS for SMEs* Standard

A.1 Paragraph BC157 of the *IFRS for SMEs* Standard states:

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.

A.2 Paragraphs 1.2 and 1.3 of the *IFRS for SMEs* Standard describe small and medium-sized entities. They state that:

1.2 Small and medium-sized entities are entities that:

- (a) do not have public accountability; and
- (b) publish general purpose financial statements for external users.

Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

1.3 An entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

Appendix B—Tentative Board decisions to date

Tentative decision	When taken
<p>Exceptions to the process for adapting disclosure requirements for a possible reduced-disclosure IFRS Standard would:</p> <ul style="list-style-type: none"> (a) exclude the disclosure requirements in paragraphs 19D(b) and 19E–19G of IFRS 12 <i>Disclosure of Interests in Other Entities</i> for investment entities. (b) require a reconciliation between the opening and closing balances of liabilities arising from financing activities. (c) require the disclosures recommended in Appendix B of Agenda Paper 31A <i>Exceptions to the process for adapting disclosure requirements</i> of the November 2020 meeting. This lists the disclosure requirements introduced in new and amended IFRS Standards with which the <i>IFRS for SMEs</i> Standard is not currently aligned that Board members recommended should be included in the reduced-disclosure IFRS Standard. (d) require subsidiaries to apply paragraph 25 of IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>. (e) require subsidiaries to apply paragraphs 20.13(b) and 11.42 of the <i>IFRS for SMEs</i> Standard. The Board also decided that it will consider whether to align the disclosure requirements for all financial liabilities as part of the Second Comprehensive Review of the <i>IFRS for SMEs</i> Standard, rather than as part of the Subsidiaries that are SMEs project. (f) include an expanded version of paragraph 28.41(e) of the <i>IFRS for SMEs</i> Standard. 	<p>November 2020</p>

Tentative decision	When taken
<p>(g) exclude disclosure objectives that are in IFRS Standards.</p> <p>(h) for disclosure requirements of the <i>IFRS for SMEs</i> Standard not in IFRS Standards:</p> <p style="padding-left: 40px;">(i) exclude paragraphs 28.41(g) and 15.19(d) of the <i>IFRS for SMEs</i> Standard;</p> <p style="padding-left: 40px;">(ii) require subsidiaries to apply an adapted version of paragraph 20.14 of the <i>IFRS for SMEs</i> Standard;</p> <p style="padding-left: 40px;">(iii) include the reliefs in paragraphs 17A and 18A of IAS 24 <i>Related Party Disclosures</i>; and</p> <p style="padding-left: 40px;">(iv) require subsidiaries to apply paragraphs 28.42 and 28.43, and an adapted version of paragraph 3.25 of the <i>IFRS for SMEs</i> Standard.</p>	
<p>The consultation document of the proposed reduced-disclosure IFRS Standard should include IFRS Standards and IFRIC Interpretations issued as at 1 January 2021 and exposure drafts published as at 1 January 2021, except for the Exposure Draft <i>General Presentation and Disclosures</i>.</p>	November 2020
<p>To maintain the reduced-disclosure IFRS Standard the Board shall consider amendments to the Standard when the Board publishes an exposure draft of a new or amended IFRS Standard.</p>	November 2020
<p>The proposed reduced-disclosure IFRS Standard will require a subsidiary applying the Standard that chooses to disclose earnings per share to apply the disclosure requirements of IAS 33 <i>Earnings per Share</i>.</p>	November 2020

Tentative decision	When taken
The proposed reduced-disclosure IFRS Standard should include an adapted version of the disclosure requirements in IAS 34 <i>Interim Financial Reporting</i> .	November 2020
The proposed reduced-disclosure IFRS Standard should require a subsidiary to disclose dividends paid in interim financial reports and annual financial statements where there is more than one class of share capital.	November 2020
The proposed reduced-disclosure IFRS Standard should include disclosure requirements derived from applying paragraph BC157 of the <i>IFRS for SMEs</i> Standard for regulatory deferral account balances.	November 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary to disclose that it has applied the reduced disclosure IFRS Standard, and require this disclosure to be located with the statement required by paragraph 16 of IAS 1 <i>Presentation of Financial Statements</i> .	October 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary to apply all of the disclosure requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .	October 2020
The proposed reduced-disclosure IFRS Standard will require a subsidiary to apply the disclosure requirements about transition provisions that are included in other IFRS Standards, subject to any modification to those disclosure requirements the Board considers appropriate for subsidiaries.	October 2020

Tentative decision	When taken
The proposed reduced-disclosure IFRS Standard will not include disclosure requirements for combined financial statements.	October 2020
The Board will consider the scope of the project only after the completion of most of the analysis of whether adaptations to the disclosure requirements of the <i>IFRS for SMEs</i> Standard are required.	November 2019
The presentation requirements of IFRS Standards, not of the <i>IFRS for SMEs</i> Standard, shall be applied by subsidiaries that are SMEs that elect to apply the IFRS Standard being developed in this project.	April 2020
<p>When considering whether to adapt the disclosure requirements of the <i>IFRS for SMEs</i> Standard:</p> <p>(a) if there is no recognition and measurement difference – no change* to the disclosure requirements;</p> <p>(b) if there is a recognition and measurement difference – consider the principles in BC157 of the <i>IFRS for SMEs</i> Standard and adapt the disclosure requirements if supported by one of the principles.</p> <p>* For the avoidance of doubt, there will be no change even if a disclosure requirement was added to an IFRS Standard since the <i>IFRS for SMEs</i> Standard was developed.</p>	October 2019