STAFF PAPER

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IASB® Meeting

Project	Subsidiaries that are SMEs		
Paper topic	Project proposal – moving the project to the standard-setting programme		
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Introduction

1. In 2016, the International Accounting Standards Board (Board) included in its research pipeline a project on Subsidiaries that are SMEs. In March 2019 the staff reported to the Board that the research project had become active.

2. The staff has undertaken research and the Board has:

   (a) discussed the results of the research about whether a Standard, if developed, would be adopted by jurisdictions and applied by subsidiaries that are SMEs (September 2019);

   (b) discussed research outcomes on whether the disclosure requirements of the *IFRS for SMEs®* Standard could be utilised with only minimal tailoring (October 2019);

   (c) considered two alternative approaches to determining appropriate tailoring and tentatively decided to follow approach 2[(1)] as outlined in the October 2019 Board Paper (October 2019);

(1) Approach 2 is: make no change if there is no recognition and measurement difference; but if there is a recognition and measurement difference, consider the principles in BC157 of the *IFRS for SMEs* Standard and adapt the disclosures if supported by one of the principles.

(d) addressed two issues (how the project can benefit subsidiaries, and scope of the project) from the September 2019 meeting (November 2019); and

(e) received a presentation by Kris Peach, Chair of the Australian Accounting Standards Board (AASB) on the AASB's proposed simplified disclosure Standard and the feedback that the AASB has received from its stakeholders (December 2019).

3. This agenda paper is divided into three parts:

Part A—moving the Subsidiaries that are SMEs project from the research programme to the standard-setting programme;

Part B—alternative ways that the project can proceed within the standard-setting programme; and

Part C—should a consultative group be established for the project if the project moves to the standard-setting programme.

4. In this paper, the staff:

Part A—Moving the project from the research programme to the standard-setting programme

(a) sets out the objective of the research stage of the project (paragraphs 5 and 6);

(b) reminds the Board of the background to the research project (paragraphs 7 and 8);

(c) summarises the research results (paragraphs 9–14);

(d) outlines the proposed standard-setting project (paragraphs 15–22);

(e) sets out the Board's criteria, regarding the merits of adding a potential project, for adding a project to the standard-setting programme and explains why the staff believes those criteria have been met (paragraphs 23–43);

(f) sets out the Board's criteria, on consultation, for adding a project to the standard-setting programme and, in particular, summarises advice received from ASAF and from the Advisory Council (paragraphs 44–49);

(g) asks the Board whether it: is satisfied it has sufficient information to make a decision on whether to add a project to its standard-setting programme; and agrees with the staff recommendation to move the Subsidiaries that are SMEs project from the research programme to the standard-setting programme (paragraphs 50 and 51);

Part B—Alternative ways that the project can proceed within the standard-setting programme

(h) discusses three alternative ways that the project can proceed within the standard-setting programme (paragraphs 52–70);

(i) asks the Board whether it agrees with the staff recommendation to follow Option Z for the way the project should proceed within the standard-setting programme (paragraphs 71–75);

Part C—Should a consultative group be established for the project

(j) asks the Board whether it agrees with the staff recommendation, and reasons for the recommendation, not to establish a consultative group for the project (paragraphs 76–78).

Part A—Moving the project from the research programme to the standard-setting programme

Objective of the research

5. The objective of the research stage of the project was to assess whether it would be feasible to permit subsidiaries that are SMEs to apply the recognition and

measurement requirements of IFRS Standards and the disclosure requirements of the *IFRS for SMEs* Standard with only minimal tailoring of those disclosure requirements.

6. The research stage was intended to provide the Board with evidence to help it decide whether to add a project to its standard-setting programme and develop a project proposal.

Background to the research project

7. In August 2015, the Board published a Request for Views: *2015 Agenda Consultation*. Some respondents to the Request for Views suggested that the Board consider permitting subsidiaries to apply IFRS Standards but with reduced disclosures. They argued that applying the *IFRS for SMEs* Standard is not attractive to some of these subsidiaries because they need to report to their parent, for consolidation purposes, numbers that apply the recognition and measurement requirements of IFRS Standards. For their own financial statements, these subsidiaries would prefer to use the same recognition and measurement requirements as IFRS Standards, but with less onerous disclosure requirements. They argued that this would make a major contribution to eliminating unnecessary costs in preparing financial statements around the world.

8. Typically, although not in every case, these subsidiaries would be eligible to apply the *IFRS for SMEs* Standard. The Board decided to explore an approach limited to subsidiaries that meet the definition of an SME (a non-publicly accountable entity) and limited to exploring whether the disclosure requirements from the *IFRS for SMEs* Standard would, with minimal tailoring, be sufficient. The reasons for taking this approach were twofold:

    (a) because the subsidiaries would be eligible to apply the *IFRS for SMEs* Standard, the Board could be satisfied that the disclosure requirements from the *IFRS for SMEs* Standard would be sufficient to meet user needs; and

(b) utilising the disclosure requirements from the *IFRS for SMEs* Standard, with minimal tailoring, should minimise the work needed, both for stakeholders and for the Board and staff.

Staff summary of research

Would the Standard, if developed, be adopted and applied?

9. Yes. From the outreach conducted, the staff believes that a Standard, if developed, would be adopted and applied.

10. For jurisdictions that do not require general purpose financial statements for non-publicly accountable entities and jurisdictions that require general purpose financial statements for such entities but do not permit application of IFRS Standards, this project may not be of benefit.

11. For jurisdictions that permit or require application of IFRS Standards for preparation of general purpose financial statements of non-publicly accountable entities, the staff has heard that there is a demand for such a Standard. In particular, preparers have shown strong support for the project.

12. The demand for the Standard arises because, for subsidiaries that qualify as SMEs and that currently apply:

    (a) full IFRS Standards, the Standard would permit them to reduce disclosures and correspondingly reduce costs;

    (b) a local GAAP or the *IFRS for SMEs* Standard, but submit a consolidation pack prepared applying full IFRS Standards, the Standard would result in them no longer having to incur additional costs because of the need to maintain additional accounting records.

13. For those jurisdictions requiring non-publicly accountable entities (SMEs) to prepare general purpose financial statements, this project has the potential to benefit a large

number of entities. For example, one corporate reported that it has hundreds of subsidiaries around the world that are non-publicly accountable and that each of these reports to the parent applying IFRS Standards and prepares general purpose financial statements for local requirements.

Can we utilise the disclosure requirements of the IFRS for SMEs *Standard with only minimal tailoring?*

14. Yes. From the analysis undertaken, and considering the AASB exposure draft, the staff believes that we can use the disclosure requirements of the *IFRS for SMEs* Standard with only minimal tailoring to develop disclosure requirements for subsidiaries that are SMEs that would satisfy the needs of users of those financial statements.

Outline of a standard-setting project

15. If the Board decides to move the project to standard-setting, the staff anticipates the next stage of the project will be to develop an exposure draft.

16. Subject to approval by the Board, the standard-setting project objective will be to develop an IFRS Standard that:

    (a) is optional for entities within its scope;

    (b) lists which paragraphs in the other IFRS Standards are not to be applied;

    (c) lists all disclosure requirements (written out in full rather than incorporated by cross-reference to the *IFRS for SMEs* Standard) that need to be applied; and

    (d) would be updated, if necessary, on the issue of a new IFRS Standard or an amendment to an IFRS Standard as well as when the *IFRS for SMEs* Standard is amended.

Exposure draft or a discussion paper?

17. A discussion paper would typically include possible approaches to addressing an issue (paragraph 4.12 of the *Due Process Handbook*).

18. The research objective for the Subsidiaries that are SMEs project was to assess whether it would be feasible to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards with the disclosure requirements of the *IFRS for SMEs* Standard with minimal tailoring of those disclosure requirements. The research objective has only two outcomes; yes or no.

19. Consequently, if the Board decides to move the project to the standard-setting programme it will follow a single course of action based on the outcome 'yes it is possible to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards and the disclosure requirements of the *IFRS for SMEs* Standard'.

20. Board Paper AP28 from the February 2018 Board meeting discussed the differing purposes of and requirements for discussion papers and exposure drafts. Some points from that paper that are pertinent are:

    (a) A discussion paper is useful for establishing a foundation for future proposals because it can explore a range of possible approaches and the limitations of each approach relative to the others. The discussion paper is particularly useful when there is a range of answers or several interrelated issues to explore. Finally, a discussion paper is useful as a change management tool because it provides an opportunity to set out and refine a common articulation of the issues.

    (b) An exposure draft is also more effective than a discussion paper for proposals in which the drafting is critical, for example in defining new terms.

    (c) While allowing this time for consultation is consistent with the principle of full and fair consultation, there are disadvantages to longer timelines when not needed:

(i) it delays any action to address the issues in financial reporting that caused the Board to start the project. In other words, it delays addressing the needs of users of financial statements. It can also be difficult for interested parties to understand why the Board does not address identified issues sooner.

(ii) it may mean that stakeholders become disengaged from a project.

(iii) it can create operational difficulties, through lack of continuity of staff and Board members.

21. Responding to those three points in relation to this project:

(a) Exploring a range of possible approaches is not appropriate given the specific research objective, which is discussed in paragraph 18, has a binary outcome; the outcome is either ‘yes it is possible to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards and the disclosure requirements of the *IFRS for SMEs* Standard’ or ‘no it is not possible to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards and the disclosure requirements of the *IFRS for SMEs* Standard’. Consequently, a discussion paper is not appropriate for the next stage of the project.

(b) Drafting is critical to this project; interested parties will need to look at the suggested tailoring of the *IFRS for SMEs* Standard’s disclosure requirements as this is critical to the success or otherwise of this project.

(c) The resulting reduced disclosure IFRS Standard will reduce costs for subsidiaries that are SMEs. Adding an additional consultation layer will delay the cost savings becoming available to subsidiaries that are SMEs.

22. If the Board agrees to move the project from the research programme to the standard-setting programme, the staff will, at a future Board meeting, ask the Board if it agrees that the next stage of the project is to develop an exposure draft rather than a discussion paper.

Criteria for adding a project to the standard-setting programme: merits of adding a potential project

23. Paragraph 5.4 of the *Due Process Handbook* states that the Board evaluates the merits of adding a project to develop a new Standard or a major amendment to existing Standards to its standard-setting agenda, on the basis of the needs of users of financial reports, while also taking into account the costs of preparing the information in financial reports. When deciding whether a project will address users' needs, the Board considers:

    (a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports;

    (b) the importance of the matter to those who use financial reports;

    (c) the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others; and

    (d) how pervasive or acute a particular financial reporting issue is likely to be for entities.

24. Paragraph 5.7 of the *Due Process Handbook* adds that the Board should only add a project if it considers that the benefits of the improvements to financial reporting will outweigh the costs.

25. The following sections set out the staff's analysis of the criteria regarding the merits of adding a project to the standard-setting programme as follows:

    (a) whether there is a deficiency and the importance of the deficiency to those who use financial statements (paragraphs 27–34);

    (b) the types of entities likely to be affected by any proposals and the pervasiveness of the problem (paragraphs 35–37); and

    (c) the costs and benefits of the proposals (paragraphs 38–43).

26. The staff are of the view that the criteria for adding a project to the standard-setting programme have been met: (i) for preparers that would apply the new Standard, costs

are expected to be lower than at present; and (ii) the elimination of disclosures that are not targeted to the needs of the users of non-publicly accountable entities should make it easier for users of those financial statements to identify relevant information.

Deficiency in current reporting and the importance to users

27. The deficiency was identified and the project added to the Board's research pipeline following requests from respondents to the last agenda consultation.

28. The deficiency arises for subsidiaries that are SMEs reporting to a parent applying IFRS Standards. As noted above, assuming that a jurisdiction requires entities that are SMEs to prepare general purpose financial statements, those subsidiaries, would typically prepare general purpose financial statements applying:

    (a) IFRS Standards (option 1); or

    (b) the *IFRS for SMEs* Standard (option 2); or

    (c) local GAAP (option 3).

29. When such subsidiaries choose to apply option 1, they are required to comply with the full disclosure requirements of IFRS Standards, even though these requirements were developed with users in mind whose needs are different to those of a user of financial statements of an SME.

30. Similarly, if such subsidiaries adopt option 2 or option 3, they will need to maintain accounting records applying requirements of both (i) IFRS Standards; and (ii) either the *IFRS for SMEs* Standard or local GAAP. They will incur additional costs because of the need to maintain additional accounting records.

31. Permitting subsidiaries, providing they are eligible to apply the *IFRS for SMEs* Standard, to apply the recognition and measurement requirements of IFRS Standards but give the disclosures required by the *IFRS for SMEs* Standard, tailored for recognition and measurement differences, would solve the deficiency.

32. When developing the disclosure requirements of the *IFRS for SMEs* Standard the Board focused on the information needs of lenders, creditors and other users of financial statements of non-publicly accountable entities; these users are interested primarily in information about cash flows, liquidity and solvency (see paragraphs BC156 – BC158 of the *IFRS for SMEs* Standard). Consequently, while there are considerably fewer disclosure requirements in the *IFRS for SMEs* Standard than in IFRS Standards, the Board concluded they are sufficient to satisfy user needs of those entities eligible to apply the *IFRS for SMEs* Standard.

33. As subsidiaries that do not have public accountability (that is subsidiaries that are SMEs) are eligible to apply the *IFRS for SMEs* Standard, user needs will similarly be satisfied if instead the disclosure paragraphs (tailored for differences in recognition and measurement) from the *IFRS for SMEs* Standard are applied with the recognition and measurement requirements of IFRS Standards. Providing the tailoring of disclosure requirements considers the information needs of lenders, creditors and other users of financial statements of non-publicly accountable entities, the resulting set of disclosure requirements will remain relevant and sufficient to satisfy the needs of users of the financial statements of a subsidiary that is an SME.

34. Further, in eliminating disclosures that are not targeted to the needs of the users of non-publicly accountable entities, it should be easier for users of those financial statements to identify relevant information.

Types of entities likely to be affected by any proposals and the pervasiveness of the problem

35. The project applies to subsidiaries that are eligible to apply the *IFRS for SMEs* Standard.[2]

36. This project has the potential to benefit a large number of entities in those jurisdictions requiring non-publicly accountable entities to prepare general purpose financial statements. For example, one corporate reported that it has hundreds of subsidiaries

[2] The Board agreed, at its November 2019 meeting, to discuss the scope of the project at a future meeting.

around the world that are SMEs (that is they are not publicly accountable) and that each of these subsidiaries reports to group applying IFRS Standards and also prepares separate financial statements for local requirements.

37. At the ASAF meeting when the project was discussed, the EFRAG member explained that EFRAG had consulted standard-setters, and standard-setters who permit or require IFRS Standards for the preparation of general purpose financial statements strongly supported the development of a new Standard, and jurisdictions indicated that there were enough subsidiaries that are SMEs that would benefit from use of the standard.

Costs and benefits of the proposals

38. The main benefits of the project are reduced costs for preparers. Respondents to the last agenda consultation asked for this project because of its potential to save costs. During the research, staff received feedback that the project would result in cost saving. For example:

    (a) The majority of those commenting at the Global Preparers Forum expressed support for the project believing it would result in cost savings.

    (b) In responding to the EU on its consultation document *Fitness check on the EU framework for public reporting by companies*, the Dutch Accounting Standards Board stated 'For wholly owned subsidiaries of listed companies, we recommend to introduce a set of "IFRS disclosure light" reporting standards. These standards would exactly follow the recognition and measurement criteria of IFRS, but would inherit only a limited part of the disclosure requirements. ... The impact would be less administrative burden for these subsidiaries of listed companies'.

39. However, during the research it was also suggested to staff that the project might lead to some companies adopting IFRS Standards that otherwise might not adopt them.

40. In relation to additional costs, entities applying the reduced disclosure standard are likely to incur some one-off transition costs. These will vary depending on whether the entity previously applied IFRS Standards or applied either local GAAP or the *IFRS for SMEs* Standard:

    (a) Entities applying IFRS Standards will need to identify how their disclosures will change on implementing the new IFRS Standard. In the main this should be a case of identifying which disclosures to remove[(3)].

    (b) Entities applying the *IFRS for SMEs* Standard will need to identify how their recognition and measurement will change. As these entities are most likely to be reporting to their parent applying the recognition and measurement requirements of IFRS Standards, this should not be onerous. They will also need to identify any changed disclosures from those required by the *IFRS for SMEs* Standard, which should be limited to any necessary tailoring due to recognition and measurement differences.

    (c) Entities applying local GAAP are likely to incur costs identifying and changing both recognition and measurement changes and changes in disclosures. As in (b), these entities are most likely to be reporting to their parent applying the recognition and measurement requirements of IFRS Standards, so this should not be onerous.

41. It is most likely that entities applying the *IFRS for SMEs* Standard and entities applying local GAAP (entities referred to in paragraph 40(b) and 40(c)) would transition to IFRS Standards applying IFRS 1 *First-time Adoption of International Financial Reporting Standards*, but giving the first-time adoption disclosures required by the new reduced disclosure IFRS Standard. This matter will be clarified as part of any standard-setting project.

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(3) There are a small number of disclosures required by the *IFRS for SMEs* Standard that are no longer required by IFRS Standards and, if the Board decided to retain these, entities to which these disclosures are relevant would need to collect the additional information.

42. In addition, as with other IFRS Standards, there will be some maintenance costs. The reduced disclosure IFRS Standard may need to be updated when changes are made to the recognition and measurement requirements in IFRS Standards. The most common changes to IFRS Standards are made through amendments to Standards. Research by the second comprehensive review team shows that amendments to IFRS Standards rarely change disclosure requirements, suggesting that changes to the reduced disclosure IFRS Standard will mainly follow the issue of a new IFRS Standard.

43. In addition, the reduced disclosure IFRS Standard would need to be updated when changes are made to the disclosure requirements in the *IFRS for SMEs* Standard unless those disclosure requirements relate to a recognition and measurement simplification or to an option that is in the *IFRS for SMEs* Standard but not in IFRS Standards.

Criteria for adding a project to the standard-setting programme: consultation

Consultation: sufficient information

44. Paragraph 5.5 of the *Due Process Handbook* states that the Board considers adding a project after considering any research it has undertaken on the topic. It adds that the Board would normally put together a proposal for a project only after it has published a discussion paper and considered the comments it received from that consultation. It notes that publishing a discussion paper before adding a standard-setting project is not a requirement, but the Board must be satisfied it has sufficient information and understands the problem and solutions well enough to proceed without one.

45. As explained in paragraphs 17–22, the specific research objective has a binary outcome and the staff thinks the Board has sufficient information and understands the problem and solution well enough to make a decision about a standard-setting project without a discussion paper.

Consultation: advice received from ASAF and from the Advisory Council

46. Paragraph 5.6 of the *Due Process Handbook* requires the Board to consult 'its Advisory Council, ASAF and accounting standard-setting bodies on proposed agenda items'.

47. ASAF, an advisory forum consisting of national standard-setters and regional standard-setting bodies, discussed this topic at its meeting on 3 October. Not all jurisdictions represented at the ASAF meeting require general purpose financial statements for subsidiaries, or they do but do not require such financial statements to be prepared applying IFRS Standards.

48. Of the other jurisdictions:
    (a) some do not believe our approach is appropriate;
    (b) others were supportive; and
    (c) on balance, those that were supportive outnumbered those that were not supportive, although some of these indicated they may consider a wider scope than subsidiaries that are SMEs.

49. At its September 2019 meeting, the IFRS Advisory Council held a discussion on the possible move from the research programme to the standard-setting programme of the Subsidiaries that are SMEs project and the Provisions project. Advisory Council members did not disagree with the possible move and provided feedback in relation to the Subsidiaries that are SMEs project. The feedback mainly addressed the question of scope.(4)

Questions for the Board

50. Based on the assessment of the criteria for adding a project to the standard-setting programme, set out in this paper, the staff recommends that the Board moves the

(4) The Board agreed, at its November 2019 meeting, to discuss the scope of the project at a future meeting.

Subsidiaries that are SMEs project from the research programme to the standard-setting programme.

Questions for the Board
1. Is the Board satisfied it has sufficient information to make a decision on whether to add a project to its standard-setting programme? 2. Does the Board agree with the staff recommendation to move the Subsidiaries that are SMEs project from the research programme to the standard-setting programme? If not, why not?

51. If the Board does not agree to move the Subsidiaries that are SMEs project from the research programme to the standard-setting programme, the staff intends to develop a project summary, for publication on the website, to outline the evidence gathered and explain the Board's decision.

Part B—Alternative ways that the project could proceed within the standard-setting programme

Three alternative ways to proceed

52. The staff have identified three possible ways in which the project could proceed within the standard-setting programme. These are:

    (a) defer any further work on the project until the second comprehensive review is complete and the Board has issued amendments to the *IFRS for SMEs* Standard (Option X)—see paragraphs 53–57;

    (b) defer any further work on the project until the Australian Accounting Standards Board (AASB) has issued its simplified disclosure standard and then issue the standard as an IASB exposure draft (Option Y)—see paragraphs 58–63; or

    (c) develop an exposure draft as soon as possible (Option Z)—see paragraphs 64–70.

Defer work on the project until the second comprehensive review is complete (Option X)

53. Adopting this option, no further work would be carried out until the Board has completed its second comprehensive review of the *IFRS for SMEs* Standard.

54. The advantage of this option is that it would avoid the potential of issuing a reduced disclosure IFRS Standard (say, in 2022) and subsequently (say, in 2023) amending some of its disclosure requirements to align with those in the revised *IFRS for SMEs* Standard, if necessary. An example of how this might arise is given in paragraphs 66 and 67 as part of the discussion of Option Z.

55. The Board papers for December 2019 include an expected timetable for the second comprehensive review (see Agenda Paper AP30). That timetable indicates that amendments to the *IFRS for SMEs* Standard are not likely to be issued by the Board until June 2022. Consequently, adopting this option it is unlikely that an exposure draft of a reduced disclosure IFRS Standard would be published by the Board until the end of 2022 or early 2023.

56. If, instead, work on developing an exposure draft begins immediately (that is, Option Z), it is expected than an exposure draft would be published approximately two years earlier than Option X.

57. The project should reduce costs for entities applying it. Consequently, the staff believe that it would be advantageous to entities if the reduced disclosure IFRS Standard were issued and available to use as soon as possible, rather than deferring work for two years. A suggestion for mitigating the potential problem identified in paragraph 54 is outlined in paragraph 70.

The Board could publish the AASB's simplified disclosure standard as an exposure draft (Option Y)

58. Adopting this option, no further work on the standard-setting project would be carried out until after the AASB has issued its simplified disclosure standard. This is expected mid-2020.

59. Before publishing the AASB's simplified disclosure standard as an exposure draft for public consultation, the Board would need to amend the AASB exposure for the following as a minimum:

    (a) cross-references to other Standards, for example, changing from 'AASB 119 *Employee Benefits*' to 'IAS 19 *Employee Benefits*';

    (b) the scope section, which in the AASB exposure draft was specific to Australia;

    (c) remove the section 'additional disclosures for Not-for-Profit entities and Public sector entities'; and

    (d) remove other paragraphs, or part paragraphs, that are specific to Australia, possibly replacing them with the equivalent from the *IFRS for SMEs* Standard or from IFRS Standards.

60. In its exposure draft, the AASB chose to include some of the presentation requirements from the *IFRS for SMEs* Standard, for example, including Section 3 *Financial Statement Presentation* (with some variations specific to Australia) and then exempting entities within its scope from the requirements of IAS 1 *Presentation of Financial Statements*.

61. The Board has not yet discussed presentation requirements and, if adopting Option Y, the Board would have to consider whether to adopt the approach taken by the AASB regarding presentation. If it decided to have something different, further changes to the AASB's standard would be required before the Board could publish its exposure draft.

62. The Board may also wish to identify whether it agreed with all the other tailoring inserted by the AASB or whether it may wish to make some changes.

63. It is therefore unlikely that the Board would publish its exposure draft much earlier than if it adopts Option Z.

Develop an exposure draft as soon as possible (Option Z)

64. Adopting this option, work on identifying the necessary tailoring would continue, following the approach agreed in the research stage. Adopting this option, the staff expect that the Board would be able to publish an exposure draft in the second half of 2020.

65. If this timetable can be adhered to, it is likely that the exposure draft would be published at least six months before the exposure draft proposing amendments to the *IFRS for SMEs* Standard. Consequently, it is likely that the reduced disclosure IFRS Standard would be issued before the amendments to the *IFRS for SMEs* Standard would be issued. This could necessitate, as outlined in paragraph 54, the reduced disclosure IFRS Standard needing to be amended to align its disclosure requirements with those in the revised *IFRS for SMEs* Standard.

66. An example of the above could be revenue disclosures. Section 23 *Revenue* of the *IFRS for SMEs* Standard is based on IAS 11 *Construction Contracts* and IAS 18 *Revenue* whereas IFRS 15 *Revenue from Contracts with Customers* is the extant Standard in IFRS Standards. In developing the reduced disclosure IFRS Standard the Board might tailor the current Section 23 disclosure requirements to reflect differences in recognition and measurement between the *IFRS for SMEs* Standard and IFRS 15. However, if Section 23 is amended during the second comprehensive review the Board may amend the disclosures in Section 23 and it is possible the tailored disclosures required in the reduced disclosure IFRS Standard are not the same as the revised Section 23 disclosures.

67. The main reasons this could occur are likely to be:

    (a) additional experience by entities applying the IFRS 15 disclosure requirements might lead to different input at the exposure draft stage of the comprehensive review project than at the (earlier) exposure draft stage of the reduced disclosure standard project; and

(b) different respondents are likely to comment on an exposure draft of amendments to the *IFRS for SMEs* Standard than on an exposure draft of a reduced disclosure standard that is part of IFRS Standards.

68. If the above situation arises an entity that had applied the reduced disclosure IFRS Standard prior to it being amended as a consequence of amendments to the *IFRS for SMEs* Standard, would need to change its disclosures in a subsequent year.

Accepting that this is possible if Option Z is taken, why might Option Z still be appropriate?

69. First, the staff would expect that the cost incurred by entities as a result of the amendments should be lower than the cost saving to them from applying the reduced disclosure IFRS Standard in an earlier year, thus, still giving them an overall saving.

70. Second, this additional cost could be mitigated because the reduced disclosure IFRS Standard is intended to be optional (paragraph 16). This would permit subsidiaries that are SMEs to choose to apply the reduced disclosure IFRS Standard as soon as possible or to choose to wait until after the amended *IFRS for SMEs* Standard has been issued.

Staff recommendation and question for the Board

71. The above analysis raises two questions: what is the appropriate way for the project to proceed; and the timing of the work. The analysis, and the staff recommendation that follows, assume that work on each would begin as soon as possible within the constraints of the option (for example, for Option X that work would begin as soon as the second comprehensive review of the *IFRS for SMEs* Standard was issued) but it is possible for all the options that the work could begin at a later date than the earliest possible if there were some other constraint.

72. The staff do not recommend adopting Option X. The staff believe that because the project should reduce costs for entities, it would be advantageous to entities if the Standard were issued and available to use as soon as possible rather than deferring work on the project for approximately two years.

73. The staff also do not recommend adopting Option Y. The staff believe that adopting Option Y would provide no or very little time saving compared to Option Z because there would be a need to make some changes before an exposure draft could be published. As explained in the December 2019 Board meeting, the AASB's reasons for taking on the project are different to those of the Board and these might lead to the AASB taking some different decisions to those the Board might take if it considered the issues itself. Through co-operation between the two teams, the projects have already mutually benefitted. However, the staff believe that there could be additional benefits of undertaking the full analysis themselves and continuing to liaise with the AASB staff.

74. The staff recommend adopting Option Z, that is to continue to analyse IFRS Standards and to develop an exposure draft as soon as possible. The staff believe that because a resulting IFRS Standard should reduce costs for entities applying it, it is preferable to develop and issue the IFRS Standard as soon as possible.

75. The staff also believe that because the time saving potentially afforded by taking the AASB standard and publishing it as an exposure draft is not significant compared to Option Z, there is merit in continuing to perform all the remaining analysis itself and liaise with staff at the AASB, given the Board's and AASB's differing objectives from the two respective projects.

Question for the Board

3. Does the Board agree with the staff recommendation to adopt Option Z, that is to continue to analyse IFRS Standards and to develop an exposure draft as soon as possible? If not, why, and which option would the Board prefer to adopt?

Part C—Project consultative group

76. Paragraph 3.59 of the *Due Process Handbook* requires that once a project is added to the Board's standard-setting programme, the Board must consider whether it should establish a consultative group for the project. It is not mandatory to have a consultative group, but if the Board decides not to do so it is required to explain on the project page why it decided not to do so, and the Board is also required to inform the DPOC.

77. The staff recommends that the Board does not establish a consultative group for the project because:

    (a) The project does not involve developing new disclosure requirements. Any necessary tailoring will be taken from or adapted from disclosure requirements in IFRS Standards.

    (b) Paragraph 3.59 of the Due Process Handbook states that the composition of a consultative group 'should reflect the purpose for which the group is being formed, **bearing in mind the need to ensure that it draws on a diverse and broad membership** (emphasis added)'. The project targets a subset of entities and a subset of users. Consequently, the staff intends to focus outreach on subsidiaries that are SMEs and lenders to these entities rather than on a broad group.

78. As noted above, the staff propose that, while developing an exposure draft, they consult with lenders that typically lend to non-publicly accountable entities and with preparers of subsidiary financial statements, and that this is more appropriate than a consultative group drawn from a broad membership.

Question for the Board
4. Does the Board agree with the staff recommendation not to establish a consultative group for the project? If not, why?