Staff paper

Agenda reference: 31A

IASB® meeting

Date	**December 2022**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**IFRS Accounting Standards without reduced disclosure requirements**
Contacts	**Hazirah Hasni (hhasni@ifrs.org)** **Jan Carlo Pereras (cpereas@ifrs.org)**

Purpose of this paper

1. This paper discusses feedback on three IFRS Accounting Standards for which the International Accounting Standards Board (IASB) did not propose reduced disclosure requirements in the proposed IFRS Accounting Standard (draft Standard) set out in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft). The IASB is asked to consider the feedback and decide whether to amend its proposals.

2. In this paper, the term 'eligible subsidiary' refers to entities that meet the requirements in paragraph 6 of the draft Standard and are therefore eligible to apply the IFRS Accounting Standard (the Standard).

Summary of staff recommendation

3. The staff recommend that the IASB confirms its proposals in the draft Standard, that the application of the disclosure requirements in IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share,* remain applicable for a subsidiary applying the Standard.

Structure of the paper

4. This paper is structured as follows:

   (a) background (paragraphs 6–9);

   (b) disclosure requirements about insurance contracts (paragraphs 10–27);

   (c) disclosure requirements about earnings per share and operating segments (paragraphs 28–35); and

   (d) staff recommendation and question for the IASB (paragraph 36).

5. The appendix to this paper includes extracts from the Basis for Conclusions on the Exposure Draft.

Background

Paragraph in the draft Standard

6. Paragraph 4 of the draft Standard states:

> The disclosure requirements in IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share* remain applicable and are, therefore, not included in Appendix A. The application of the disclosure requirements in IFRS 8, IFRS 17 or IAS 33 is unchanged for an entity applying this [draft] Standard.

Questions in the Invitation to Comment

7. Question 6(a) of the Invitation to Comment on the Exposure Draft asked if respondents agree that draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17. If respondents disagreed, they were asked from which of the disclosure requirements in IFRS 17 should an entity that applies the Standard be exempt. Respondents are asked to explain why an entity applying the Standard should be exempt from the suggested disclosure requirements.

8. Question 6(b) of in the Invitation to Comment on the Exposure Draft asked respondents if they are aware of entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard. Respondents were asked to state whether such entities are common in their jurisdiction, and why they are not considered to be publicly accountable.

9. Question 10 of the Invitation to Comment on the Exposure Draft asked for any other comments on the proposals in the draft Standard or other matters in the Exposure Draft. A few respondents in responding to this question, commented on the application of IFRS 8 and IAS 33.

Disclosure requirements about insurance contracts

10. The IASB observed that some eligible subsidiaries may issue insurance contracts within the scope of IFRS 17. For example, a subsidiary that insures only 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 eligible to apply the draft Standard might issue insurance contracts within the scope of IFRS 17.

11. In developing its proposals, the IASB decided not to propose reduced disclosure requirements for IFRS 17. An extract from the Basis for Conclusions on Exposure Draft explaining the IASB's reasoning for this proposal is in the appendix to this agenda paper.

Feedback[1]

12. There was mixed feedback on the IASB's proposal not to provide reduce disclosure requirements for IFRS 17. Many respondents (a small majority) were supportive of the IASB's proposal noting:

    (a) IFRS 17 introduces a new accounting model for insurance contracts supported by its disclosure requirements. These respondents acknowledged that IFRS 17 is a 'new' IFRS Accounting Standard and there may be a lack of experience of applying IFRS 17 in practice to assess which disclosure requirements a subsidiary applying the draft Standard need not provide.

    (b) reducing disclosure requirements in IFRS 17 would result in limited benefit and could be detrimental to users of subsidiaries' financial statements. The industry-specific disclosures required by IFRS 17 are needed to address users' information needs given the nature and environment of the industry.

    (c) subsidiaries who issue insurance contracts within the scope of IFRS 17 are likely to be considered as having public accountability and therefore not eligible to apply the draft Standard.

    (d) the IASB could consider reducing disclosures when the experience of applying IFRS 17 has been assessed. These respondents said the IASB should propose reduced disclosure requirements for IFRS 17 when users are familiar with the new accounting model for insurance contracts and its effect on an entity's financial statements.

13. Many respondents (a large minority) did not support the IASB's proposal, stating:

    (a) IFRS 17 should be treated like other IFRS Accounting Standards. As such, the IASB should reduce the disclosure requirements for IFRS 17 while the Subsidiaries without Public Accountability project is active and resources are allocated to it (rather than reconsider the disclosure requirements in IFRS 17 in the future). Further, a few respondents said that IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* were also issued recently, but the IASB is proposing reduced disclosure requirements for these Standards. These respondents cautioned such approach would set a precedent that the disclosure requirements in newly issued IFRS Accounting Standard (or amendments) would not be reduced when the Standard is issued.

    (b) IFRS 17 is (in their view) a complex Standard, and it would be burdensome for eligible subsidiaries to apply all of its disclosure requirements. This results in undue cost and effort for subsidiaries applying the Standard and deviates from the project objective.

[1] See Agenda Paper 31A *Feedback from comment letters*, Agenda Paper 31B *Feedback from outreach events* of the April 2022 IASB meeting and IASB Update April 2022

(c) not all disclosure requirements in IFRS 17 are useful for users of eligible subsidiaries' financial statements (although respondents did not specify which disclosure requirements in IFRS 17 eligible subsidiaries should be exempt from). A few respondents suggested that the IASB perform additional research and outreach with stakeholders to identify opportunities for reducing the disclosure requirements in IFRS 17 for the Standard.

(d) insurance regulators perform their regulatory function without significant reliance on the disclosure requirements in IFRS 17 and that their information needs are satisfied through regulatory reports.

14. Many respondents to Question 6(b) said they are aware of entities that issue insurance contracts within the scope of IFRS 17 and would be eligible to apply the draft Standard:

(a) a few of these respondents, notably from Europe, said in their jurisdiction such entities include captive insurers, life insurers, protection and indemnity insurance clubs and corporate entities that issue contracts which meet the definition of insurance contracts in IFRS 17. Further, an insurance association in Europe said that insurance entities do not necessarily have fiduciary duties towards their customers as insurers are not universally nor generally managing assets on behalf of policy holders.

(b) a few of these respondents, although aware of entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard, said such entities are not common in their jurisdiction.

(c) most of these respondents did not indicate how common entities that are eligible to apply the draft Standard issue insurance contracts within the scope of IFRS 17.

15. Some respondents were not aware of entities that issue insurance contracts within the scope of IFRS 17 and would be eligible to apply the draft Standard. Further, a few respondents mostly from Asia said insurance entities within their jurisdiction are regulated and considered as having public accountability.

Staff analysis

Insurance contracts relates to specialised activities

16. In regard to feedback that reduced disclosure requirements for IFRS 17 should be included in the Standard similar to recently issued IFRS Accounting Standards, the staff are of a different view to respondents as the staff consider:

(a) the nature of contracts and transactions addressed by IFRS 17 differ from those in IFRS 15 and IFRS 16 because transactions addressed by IFRS 17 are specialised in nature. Insurance contracts are generally originated by entities primarily engaged in insurance business.

(b) IFRS 17 is still in its implementation phase. IFRS 17 is not effective until 1 January 2023 whereas IFRS 15 was effective for annual reporting periods beginning on or after 1 January 2018 and IFRS 16 was effective for annual reporting period beginning on or after 1 January 2019.

17. In developing the draft Standard, the IASB had the view that although insurance regulators are not the primary users of financial statements, the disclosures required by IFRS 17 may help insurance regulators in undertaking enforcement activities[2]. In responding to the Exposure Draft a few European respondents said the information needs of insurance regulators are satisfied through regulatory reports without significant reliance on disclosures required by IFRS 17.

18. The IASB's approach to developing the disclosures focuses on the information needs of the primary users of financial statements. In developing the draft Standard, the IASB was of the view that the interest of users of the financial statements may be best served by full IFRS 17 disclosures, to facilitate user's understanding of the new model for insurance accounting[3].

19. Accordingly, the staff think there are different considerations surrounding reducing the disclosure requirements in IFRS 17 compared to other IFRS Accounting Standards as its disclosures relate to specialised activities and it introduces a new model for insurance accounting which is supported by those disclosures.

Prevalence of eligible subsidiaries that issue insurance contracts

20. Responses to Question 6(b) of the Invitation to Comment identified there are eligible subsidiaries that issue insurance contracts within the scope of IFRS 17 although most of these respondents did not indicate whether these subsidiaries are common in their jurisdictions. Consequently, these eligible subsidiaries may not realise the same costs savings as other eligible subsidiaries applying the Standard. This arguably supports the Standard including reduced disclosures for IFRS 17.

21. However, as set out in paragraphs 14–15 of this paper, only a small number of respondents said entities that issue insurance contracts within the scope of IFRS 17 and would be eligible to apply the draft Standard are common. Additionally, a few respondents said regulation in their jurisdiction would prohibit insurance entities from applying the Standard because these entities are considered to have public accountability. In the staff's view, this suggests that the absence of reduced disclosure requirement for IFRS 17 would only impact a small portion of subsidiaries eligible to apply the Standard.

[2] See paragraph BC64(d) of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*

[3] See paragraph BC64(a) of the Basis for Conclusions on the Exposure Draft

Limited reduction on the disclosure requirements for IFRS 17

22. The lack of feedback on how disclosure requirements in IFRS 17 can be reduced for eligible subsidiaries corroborates the IASB's initial analysis that reducing the disclosure requirements for IFRS 17 in the Standard would likely result in a limited reduction[4][5].

23. In the staff's view, this further suggests that the incremental cost incurred by an eligible subsidiary providing all the disclosures required by IFRS 17 compared to providing slightly fewer disclosures is minimal.

Timing of proposing reduced disclosure requirements for IFRS 17

24. Respondents said developing reduced disclosure requirements for insurance contracts at this stage when there are allocated resources to the project would be operationally efficient for the IASB. However, the staff think proposing reduced disclosure for IFRS 17 in the Standard at this stage of the project may introduce the risk of re-exposure and possibly delay issuance of the Standard.

25. The IASB also acknowledged that deferring proposing reduced disclosure requirements for IFRS 17 in the Standard for a period of time would enable the IASB to assess the effectiveness of IFRS 17 disclosure requirements[6].

Summary

26. Given the analysis in paragraphs 16–25, the staff are of the view that the IASB should confirm that the application of IFRS 17 is unchanged for a subsidiary applying the Standard because:
    - (a) IFRS 17 introduces a new accounting model for insurance contracts which is supported by its disclosure requirements;
    - (b) reduced disclosure requirements for IFRS 17 would only impact a small portion of subsidiaries eligible to apply the Standard;
    - (c) there is a lack of feedback on how the disclosure requirements in IFRS 17 can be reduced for eligible subsidiaries; and
    - (d) deferring proposing reduced disclosure requirements for IFRS 17 in the Standard for a period of time would enable the IASB to assess the effectiveness of IFRS 17 disclosure requirements.

27. The IASB should continue to assess the effectiveness of disclosure requirements in IFRS 17 and consider proposing reduced disclosure requirements for IFRS 17 in the Standard at a future date, specifically when sufficient evidence and feedback surrounding the implementation of IFRS 17 have been obtained.

[4] See Agenda Paper 31A *IFRS 17* Insurance Contracts of the December 2020 IASB meeting and the IASB Update December 2020
[5] See paragraph BC64(c) of the Basis for Conclusions on the Exposure Draft
[6] See paragraph BC64(b) of the Basis for Conclusions on the Exposure Draft

Disclosure requirements about earnings per share and operating segments

28. The IASB observed that an eligible subsidiary is permitted, but not required, to apply IAS 33. Paragraph 3 of IAS 33 states that if an entity discloses earnings per share, it shall calculate and disclose earnings per share applying that Standard. In the draft Standard the IASB proposed that if an eligible subsidiary chose to disclose earnings per share, it would be required to apply the disclosure requirements in IAS 33.

29. Similarly, the IASB also observed that an eligible subsidiary is permitted, but not required, to apply IFRS 8. However, unlike IAS 33, paragraph 3 of IFRS 8 permits an entity that is not required to apply IFRS 8 to disclose segment information that does not comply with IFRS 8; in such circumstances, IFRS 8 prohibits that entity to describe that information as segment information.

30. In the draft Standard the IASB proposed that if an eligible subsidiary chooses to disclose information about segments that does not comply with IFRS 8, it shall not describe the information as segment information. An eligible subsidiary choosing to make such disclosures shall describe the basis for preparing and making those disclosures (consistent with the requirement in paragraph 3.25 of the *IFRS for SMEs* Accounting Standard). If an eligible subsidiary chooses to apply IFRS 8, it shall apply all the disclosure requirements in IFRS 8 and shall state that it has applied IFRS 8 (see paragraph 213 of the draft Standard).

31. An extract from the Basis for Conclusions on Exposure Draft on disclosure requirements about earnings per share and segment information is in the appendix to this agenda paper.

Feedback[7]

32. Respondents did not specifically agree or disagree with the IASB's proposal for IAS 33 and IFRS 8 in the draft Standard. However, a few respondents asked the IASB to clarify that IAS 33 and IFRS 8 are not mandatory for an eligible subsidiary applying the draft Standard—that is, those standards are only applicable if an eligible subsidiary applying the draft Standard chooses to disclose information about earnings per share and operating segments. These respondents were of the view that paragraph 4 of the draft Standard is not sufficiently clear that IAS 33 and IFRS 8 are not mandatory.

Staff analysis

33. Based on the feedback the staff are of the view that the IASB should retain the proposals for IAS 33 and IFRS 8 as set out in the draft Standard, for the reasons sets out in BC65–BC66 of the Basis for Conclusions on the Exposure Draft.

[7] See Agenda Paper 31A *Feedback from comment letters*, Agenda Paper 31B *Feedback from outreach events* of the April 2022 IASB meeting and IASB Update April 2022

34. The staff noted requests from a few respondents for the IASB to clarify in the Standard the application of IAS 33 and IFRS 8 when applied on a voluntary basis. The draft Standard only includes disclosure requirements that a subsidiary is required to provide. The 'scope sections' of other IFRS Accounting Standards are left *in situ* in those Standards. Therefore, a subsidiary applying the draft Standard has to refer to the 'scope sections' in other IFRS Accounting Standards. Similarly, a subsidiary would also refer to other IFRS Accounting Standards for recognition, measurement and presentation requirements.

35. Nevertheless, the staff could consider whether the concerns raised by respondents as set out in paragraph 32 of this paper could be alleviated in finalising the drafting of the Standard.

Staff recommendation and question for the IASB

36. Given the staff analysis in paragraphs 16–27 and 33–35, the staff recommend the IASB confirms its proposals in the draft Standard, that the application of the disclosure requirements in IFRS 8 , IFRS 17 and IAS 33, remain applicable for a subsidiary applying the Standard.

Question for IASB members
Does the IASB agree with the staff recommendation in paragraph 36 of this paper?

Appendix—Extract from the Basis of Conclusion on the Exposure Draft

Specific disclosure requirements

…

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