IFRS Accounting

Staff paper

Agenda reference: 2B

Accounting Standards Advisory Forum meeting

Date	**September 2022**
Project	**Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures***
Topic	**Addressing comments on proposed disclosure requirements**
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Purpose of this paper

1. This paper asks the Accounting Standards Advisory Forum (ASAF) members for their views on the staff's suggested process to address comments received on the proposed disclosure requirements in the draft IFRS Accounting Standard (draft Standard) set out in Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft).

Question for ASAF members

2. What are ASAF members' views on the staff's suggested process to address comments on the proposed disclosure requirements?

Structure of the paper

3. This paper is structured as follows:

    (a) overview (see paragraphs 4–5);

    (b) feedback on the proposed disclosure requirements (see paragraph 6); and

    (c) staff suggested process (see paragraphs 7–15).

Overview

4. Paragraphs 7–8 of Agenda Paper 2 *Cover paper* explain the approach applied by the IASB in developing the proposed disclosure requirements (the IASB's approach) and the appendix of Agenda Paper 2 includes a summary of the feedback on this approach.

5. Many respondents agreed with the IASB's approach to developing the disclosure requirements. However, many respondents had comments on the proposed disclosure requirements themselves. Due to the number and diversity of comments received on the proposed disclosure requirements, the staff have developed a process to analyse the comments effectively and consistently.

Feedback on the proposed disclosure requirements

6. Many respondents commented on the proposed disclosure requirements in the draft Standard. Comments were diverse and involved many of the proposed disclosure requirements in the draft Standard. Some common themes observed include:

   (a) many respondents suggested reducing the proposed disclosure requirements further:

      (i) generally, respondents specified which of the proposed disclosure requirements they would exclude and, in most instances, provided a rationale. The proposed disclosure requirements from IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits* receive the most suggestions for further reductions[1]. For example, some respondents suggested excluding the proposed disclosure requirements for credit risk management practices from IFRS 7.

      (ii) some respondents did not refer to specific disclosure requirements but suggested making further reductions for specific IFRS Accounting Standards. IFRS 7 received the most comments by respondents for further reduction. For example, some of these respondents said eligible subsidiaries would not usually have extensive hedging activities and so the proposed disclosure requirements for hedge accounting in paragraphs 55–58 of the draft Standard are, in their view, excessive.

      (iii) some respondents suggested excluding the disclosure requirements from IAS 34 *Interim Financial Reporting* because an eligible subsidiary would not usually prepare interim financial statements. These respondents noted that, if the subsidiary did, it could apply IAS 34 rather than the draft Standard. This suggestion is similar to the approach in IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share* (see paragraph 4 of the draft Standard).

   (b) some respondents suggested additional disclosure requirements. In most instances these respondents provided a rationale supporting adding a disclosure requirement. Respondents most favoured adding disclosure requirements from IFRS 7 and IFRS 12 *Disclosure of Interests in Other Entities*. For example, some respondents suggested the disclosure requirements about the maturity analysis for non-derivative financial liabilities applying IFRS 7 should be added. Other respondents suggested adding disclosure requirements about the composition of the group when consolidated financial statements are prepared applying IFRS 12.

   (c) some respondents asked for guidance on application of the proposed disclosure requirements. The most frequent request was for guidance on applying paragraph 16 of the draft Standard that specifies when an eligible subsidiary provides disclosures in addition to those required by the draft Standard.

[1] See paragraphs 42–67 and paragraphs 151–159 of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* for disclosure requirements on IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*, respectively.

Staff suggested process

7. The staff think that the process for analysing comments on the proposed disclosure requirements should be consistent with the IASB's approach to developing the proposed disclosure requirements.

8. Paragraphs 9–15 of this paper set out the staff's suggested process to address comments on the proposed disclosure requirements.

Step 1: Stratify comments based on the nature of disclosure requirements

9. Stratify comments on the proposed disclosure requirements into categories based on whether the comment relates to:

   (a) a disclosure requirement where there is *no* recognition and measurement difference between IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard;

   (b) a disclosure requirement where there is a recognition and measurement difference between IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard;

   (c) an exception to the IASB's approach; and

   (d) other topics (for example, comments about footnotes, Appendix A, general comments about the proposed disclosure requirements).

10. Stratifying the comments into categories based on how the disclosure requirements were developed would ensure that the IASB's approach to addressing each comment on the proposed disclosure requirements is consistent with how the IASB developed the proposed disclosure requirements. This would help to ensure that the overall basis of developing the new IFRS Accounting Standard is consistent.

11. For example, a comment categorised as (a) in paragraph 9 of this paper (because there is *no* recognition and measurement difference) immediately informs that the disclosure requirements are from the *IFRS for SMEs* Accounting Standard.[2] The staff think adding or deleting disclosure requirements in response to comments in this category would have a high hurdle as doing so would cause the draft Standard to deviate from the *IFRS for SMEs* Accounting Standard. To make the decision on whether to add or delete a comment the staff would apply Step 2 of the process (as set out in paragraphs 12-13 of this paper).

[2] Paragraph BC29 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

Step 2: Assessing each comment against a set of factors

12. Assess the rationale provided by the respondent against a set of factors:

Factor	Description
Principles on users' information needs set out in BC157[3]	Whether the comment provides further information on applying the principles on users' information needs.
Cost-benefit considerations	Whether the comment is supported by a cost-benefit assessment (ie, whether the comment would lead to a better balance between the costs and benefits of applying the requirements).
Pervasiveness of the comment	Whether the comment is made by more than one respondent, and whether this comment is concentrated in a particular jurisdiction or widespread.
Overall usefulness of information	Whether the overall disclosure requirements for a topic or a Standard provides useful information to users of subsidiaries' financial statements.
IASB decision(s)	Whether the comment has been specifically discussed by the IASB and whether it provides further insights.

13. Applying the factors in paragraph 12, the staff would formulate a recommendation to the IASB on whether there is sufficient evidence to add, delete or clarify the proposed disclosure requirement in the draft Standard.

Step 3: Recommendation

14. After applying Step 1 and Step 2, the staff will make a recommendation to the IASB. The staff would provide the IASB with:

(a) a summary of the analysis of comments; and

(b) disclosure requirements identified as those that the staff recommend should be changed—added, deleted, or clarified—in the draft Standard.

15. As set out in paragraph 14(b), the staff would only present to the IASB those proposed disclosure requirements that the staff would be recommending be added, deleted, or clarified.

[3] '*Principles of users' information needs set out in BC157*' refers to paragraph BC157 of the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard and paragraph BC34 of the Basis for Conclusions on the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

Question for ASAF members
What are ASAF members' views on the staff's suggested process (outlined in paragraphs 9–15) to addressing comments on proposed disclosure requirements?