IFRS Accounting

Staff paper

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IASB® meeting

Date	**January 2023**
Project	**Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures***
Topic	**Transition matters—interaction between IFRS 1 and the Standard**
Contacts	**Hazirah Hasni** (hhasni@ifrs.org) **Jan Carlo T. Pereras** (cpereras@ifrs.org)

Purpose of this paper

1. This paper discusses the feedback on the interaction between IFRS 1 *First-time Adoption of International Financial Reporting Standards* and the proposed IFRS Accounting Standard (the draft Standard) set out in the International Accounting Standards Board's (IASB) Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft).

2. In this paper, the term 'eligible subsidiary' refers to entities that meet the requirements in paragraph 6 of the draft Standard.

Summary of staff recommendation

3. The staff recommend that the IASB proceed with its proposal to:

   (a) include reduced disclosure requirements for IFRS 1 in the new IFRS Accounting Standard; and

   (b) explain the interaction between IFRS 1 and the new IFRS Accounting Standard, as set out in paragraphs 12–14 of the draft Standard.

Structure of the paper

4. This paper is structured as follows:

   (a) background (see paragraphs 6–8);

   (b) feedback on the draft Standard (see paragraphs 9–12);

   (c) staff analysis (see paragraphs 13–21); and

   (d) staff recommendation and question to the IASB (see paragraph 22).

5. The appendix to this agenda paper reproduces paragraphs 12–14 of the draft Standard and paragraphs BC84–BC86 of the Basis for Conclusions of the Exposure Draft on the interaction between IFRS 1 and the draft Standard.

Background

Question in the Invitation to Comment

6. Question 7 of the Invitation to Comment of the Exposure Draft asked:

   (a) whether respondents agree with including reduced disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1; and

   (b) whether respondents agree with the proposals in paragraphs 12–14 of the draft Standard on the interaction between IFRS 1 and the draft Standard.

7. Paragraphs 12–14 of the draft Standard explain that:

   (a) an entity that applies the Standard when preparing its first IFRS Financial statements shall apply the disclosure requirements of the Standard, not those of IFRS 1;

   (b) electing or revoking an election to apply the Standard does not, on its own, result in an entity meeting the definition of a first-time adopter of IFRS Accounting Standards as defined in IFRS 1; and

   (c) an entity revoking the election to apply the Standard does not apply IFRS 1 in the current period if in its previous period it provided an explicit and unreserved statement of compliance with IFRS Accounting Standards.

8. Extract from the draft Standard and Basis for Conclusions on the Exposure Draft about the interaction with IFRS 1 is in the appendix to this agenda paper.

Feedback on the Exposure Draft[1]

Including reduced disclosure requirements for IFRS 1

9. Most respondents agreed with including reduced disclosure requirements for IFRS 1 in the draft Standard (Question 7(a) of the Invitation to Comment). Respondents said:

   (a) proposing reduced disclosures for IFRS 1 is consistent with the project objective;

   (b) requiring all the disclosures in IFRS 1 to be applied may be impractical for subsidiaries without public accountability; and

   (c) the proposed reduced disclosure requirements for IFRS 1 in the draft Standard are sufficient to meet users' information needs.

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

10. A few respondents, of which many are accounting firms and organisations, disagreed with including reduced disclosure requirements for IFRS 1 in the draft Standard. These respondents said:

   (a) the disclosure requirements of IFRS 1 are essential to help users understand the transitional impact when an eligible subsidiary applies IFRS Accounting Standards for the first-time. Respondents disagreeing said an eligible subsidiaries' previous financial reporting framework might differ significantly from IFRS Accounting Standards.

   (b) there could be a risk of structuring opportunities if the transition to IFRS Accounting Standards is undertaken in two stages— the eligible subsidiary could first apply the new Standard with reduced disclosures for IFRS 1 and then subsequently revoke the election.

   (c) the disclosure requirements in IFRS 1 are relevant to all first-time adopters of IFRS Accounting Standards regardless whether they are eligible subsidiaries or not.

   (d) applying IFRS 1 and its disclosure requirements is a one-time cost and therefore the incremental costs of providing all the disclosure requirements in IFRS 1 compared to the proposed reduced disclosures in the draft Standard is not relevant.

Interaction between the draft Standard and IFRS 1

11. Almost all respondents agreed with the IASB's proposals on the interaction between the draft Standard and IFRS 1 (Question 7(b) of the Invitation to Comment) set out in paragraphs 12–14 of the draft Standard. These respondents noted such clarifications are helpful in applying the draft Standard.

12. A few respondents that disagreed with the proposals said including reduced disclosure requirements for IFRS 1 in the draft Standard together with the clarifications in paragraphs 12–14 of the draft Standard complicates the first-time application of IFRS Accounting Standards. In their view it would be easier for *all* first-time adopters of IFRS Accounting Standards to refer in the same IFRS Accounting Standard.

Staff analysis

Including reduced disclosure requirements for IFRS 1

13. Consistent with its approach to developing the proposed disclosure requirements in the draft Standard, the proposed reduced disclosure requirements for IFRS 1 are based on Section 35 *Transition to the IFRS for SMEs* of the *IFRS for SMEs* Accounting Standard. The IASB has considered the feedback on its approach to developing the proposed disclosure requirements and decided to retain the approach used to develop the draft Standard. The approach ensures the

disclosures are sufficient to meet the information needs of users of eligible subsidiaries financial statements.[2]

14. The staff does not support the views of those respondents that argued the disclosure requirements of IFRS 1 should remain applicable to eligible subsidiaries as the costs in providing those disclosures are 'one-time' in nature. The staff think that eligible subsidiaries should not be burdened by the cost (even if one-off) to provide all the disclosures of IFRS 1 when providing reduced disclosures would be sufficient to meet their users' information needs.

15. The staff do not think that the perceived 'structuring opportunity' (see paragraph 10(b) of this agenda paper) is a concern because the reduced disclosures proposed in the draft Standard considered the information needs of users of eligible subsidiaries' financial statements. As such, the subsidiary does not *avoid* providing the disclosures, but is required to provide those disclosures that are sufficient to meet the needs of its users. Furthermore, the transition requirements to IFRS Accounting Standards set out in IFRS 1 are unchanged, except for its disclosure requirements. The transition requirements related to recognition, measurement and presentation remain applicable.

16. Accordingly, the staff recommend that the Standard, when finalised, should include reduced disclosure requirements for IFRS 1.

Interaction between IFRS 1 and the draft Standard

17. Paragraphs 12–14 of the draft Standard explain, for the avoidance of doubt, the relationship between IFRS 1 and the draft Standard including how an eligible subsidiary would apply the draft Standard when preparing its first IFRS financial statements[3].

18. As explained in the Basis for Conclusion on the Exposure Draft (see the appendix to this agenda paper), paragraphs 12–14 of the draft Standard are consistent with the view that the draft Standard is part of IFRS Accounting Standards. Application of the Standard does not preclude a subsidiary stating compliance with IFRS Accounting Standards, therefore electing or revoking an election to apply the Standard does not, on its own, result in an entity meeting the definition of a first-time adopter of IFRS Accounting Standards in IFRS 1[4].

19. Feedback to the Exposure Draft were largely supportive of the explanations in paragraphs 12–14 of the draft Standard. Respondents agreed that an eligible subsidiary that applied IFRS Accounting Standards, but not the Standard, in the immediately preceding period, and elects to apply the Standard in the current period, is not a first-time adopter of IFRS Accounting Standards, and, therefore, does not apply IFRS 1 in the current period.

[2] See Agenda Paper 31B *Approach to developing the proposed disclosure requirements* and *IASB Update* of the October 2022 IASB meeting.
[3] See paragraph 3 and Appendix A *Defined terms* of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.
[4] See Appendix A *Defined terms* of IFRS 1.

20. A few respondents said that it would be easier for a first-time adopter of IFRS Accounting Standards to refer in the same IFRS Accounting Standard, IFRS 1. The IASB could locate the reduced disclosure disclosures for IFRS 1 and the clarifications set out in paragraphs 12–14 of the draft Standard within IFRS 1 instead of in the new Standard (that is, everything related to first-time application of IFRS Accounting Standards would be located in IFRS 1). However, the staff think otherwise because:

    (a) locating the reduced disclosure requirements for IFRS 1 in the Standard is consistent with the approach used for all other reduced disclosure requirements.

    (b) locating the clarifications on the interaction of the Standard with IFRS 1 in the Standard is helpful because those clarifications do not only apply to eligible subsidiaries applying IFRS Accounting Standards for the first time. They also apply to eligible subsidiaries that applied IFRS Accounting Standards in the prior period (such as the clarification in paragraph 13 of the draft Standard).

21. Therefore, the staff consider there to be no compelling feedback suggesting the IASB should remove or modify paragraphs 12–14 of the draft Standard.

Staff recommendation and question to the IASB

22. Given the analysis in paragraphs 13–21, the staff recommend that the IASB proceed with the proposal to:

    (a) include reduced disclosure requirements for IFRS 1 in the Standard; and

    (b) explain the interaction of the Standard with IFRS 1, as set out in paragraphs 12–14 of the draft Standard.

Question for IASB members
Does the IASB agree with staff recommendation set out in paragraph 22 of this paper?

Appendix—Extract from the draft Standard and Basis of Conclusion on the Exposure Draft

Extract from the draft Standard

Interaction of the [draft] Standard with IFRS 1 *First-time Adoption of International Financial Reporting Standards*

12 An entity applies IFRS 1 *First-time Adoption of International Financial Reporting Standards* when it prepares its first IFRS financial statements, or when permitted applying paragraph 4A of IFRS 1. An entity that applies this [draft] Standard when preparing its first IFRS financial statements shall apply the disclosure requirements in paragraphs 23–30 of this [draft] Standard and is not required to apply the disclosure requirements in paragraphs 23–33 of IFRS 1.

13 Electing or revoking an election to apply this [draft] Standard does not, on its own, result in an entity meeting the definition of a first-time adopter of IFRS Standards in IFRS 1. For example, an entity that applied IFRS Standards, but not this [draft] Standard, in the immediately preceding period, and elects to apply this [draft] Standard in the current period, is not a first-time adopter of IFRS Standards, and, therefore, does not apply IFRS 1 in the current period.

14 Similarly, an entity revoking the election to apply this [draft] Standard in the current period does not apply IFRS 1 in the current period if in its previous period it provided an explicit and unreserved statement of compliance with IFRS Standards as required by paragraph 110 of this [draft] Standard.

Extract from the Basis of Conclusion on the Exposure Draft

Transition to (and from) the draft Standard

…

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).