
IASB[®] meeting

Date	May 2023
Project	Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures
Topic	Paragraph 16 of the draft Standard
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to decide whether to provide guidance on or update paragraph 16 of the draft Standard set out in the 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 recommends that the IASB does not:
 - (a) add guidance on or revise paragraph 16 of the draft Standard; nor
 - (b) develop an overall disclosure objective in the new Standard.

Structure of the paper

4. The paper is structured as follows:
 - (a) background (paragraphs 5–8);
 - (b) staff analysis (paragraphs 9–25); and
 - (c) staff recommendation and question to the IASB (paragraphs 26–27).

Background

Proposed requirements in the draft Standard

5. Paragraph 16 of the draft Standard states:

In accordance with paragraph 31 of IAS 1 *Presentation of Financial Statements*, an entity need not provide a disclosure required by this [draft] Standard or other IFRS Standards if the information resulting from that disclosure is not material. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in this [draft] Standard, including the requirements in other IFRS Standards that remain applicable, is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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6. Paragraph 16 of the draft Standard is based on paragraph 31 of IAS 1 *Presentation of Financial Statements*.¹ Paragraph 16 is included within the section ‘*Application of disclosure requirements*’ of the draft Standard (paragraphs 15–21 of the draft Standard). In proposing paragraph 16 of the draft Standard the IASB’s aim was to facilitate application of the proposed disclosure requirements in the draft Standard and to reiterate the requirement in paragraph 31 of IAS 1, that eligible subsidiaries in complying with the proposed disclosure requirements consider materiality of the information that would be provided in applying the requirements.

Summary of feedback

7. The IASB did not ask a question on paragraph 16, however respondents provided feedback; that feedback was mixed. Although most of the respondents agree paragraph 16 of the draft Standard is helpful, they raised concerns about assessing materiality on disclosures in applying the draft Standard. Respondents said:
- (a) Applying paragraph 16 requires judgement and could create practical issues. A few respondents said that guidance should be developed about how eligible subsidiaries would apply materiality to disclosure requirements in the new Standard considering that the nature of these subsidiaries is different from entities that are publicly accountable.
 - (b) To facilitate the assessment of whether additional disclosures are needed, respondents suggested that the IASB should consider adding an overall disclosure objective.

¹ The Exposure Draft *General Presentation and Disclosures* set out proposals for a new IFRS Accounting Standard that would replace IAS 1 *Presentation of Financial Statements*. The requirement in paragraph 31 of IAS 1 is expected to be carried over in that new IFRS Accounting Standard.

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8. Some respondents said that given the importance of the requirements in paragraph 16 of the draft Standard, it should be more prominent to avoid the requirement being overlooked. Respondents suggested that the IASB:
- (a) highlight that fair presentation in IAS 1 is an overriding requirement and that the proposed disclosure requirements are only *minimum* disclosure requirements;
 - (b) link the ‘*Meeting the objective*’ section in paragraphs 2–5 of the draft Standard to paragraph 16 of the draft Standard; or
 - (c) divide the paragraph into;
 - (i) when information required by the draft Standard need not be disclosed; and
 - (ii) when additional disclosures have to be provided.

Staff analysis

9. The staff analysis is structured as follows:
- (a) practical concerns and facilitating application of paragraph 16 of the draft Standard (paragraphs 10–18); and
 - (b) prominence of paragraph 16 of the draft Standard (paragraphs 19–25).

Practical concerns and facilitating application of paragraph 16 of the draft Standard

Separate guidance for eligible subsidiaries

10. Respondents that asked for additional guidance on the application of materiality to disclosure requirements in the draft Standard said guidance is necessary because of the different nature of subsidiaries eligible to apply the new Standard.
- IFRS Accounting Standards are primarily intended to be applied by entities whose

debt or equity instruments are traded in public market or are banks and other financial institutions—entities with public accountability. Subsidiaries eligible to apply the new Standard do not have public accountability.

11. The IASB published [IFRS Practice Statement 2 *Making Materiality Judgements*](#) in September 2017. The Practice Statement provides entities with non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards. In publishing the Practice Statement, the IASB expected it would help promote a greater understanding of how judgement should be exercised to assess materiality in preparing financial statements (see paragraph BC5 of IFRS Practice Statement 2). The IASB did not make the guidance mandatory because issuing such mandatory requirements could risk appearing prescriptive which could undermine the emphasis on entities applying their judgement in the assessment of materiality (see paragraph BC6(a) of IFRS Practice Statement 2).
12. The Practice Statement provides guidance on making materiality judgements. It also provides two examples of how materiality judgements relate to presentation and disclosure in IFRS Accounting Standards (see paragraph 10 and examples B and C of IFRS Practice Statement 2). Although the Practice Statement specifically notes that it is not intended for entities applying the *IFRS for SMEs* Accounting Standard—entities without public accountability—such entities may still refer to the guidance in the Practice Statement in the same way they may consider the requirements and guidance in IFRS Accounting Standards in dealing with similar and related issues when the *IFRS for SMEs* Accounting Standard does not specifically address a transaction, other event or condition (see paragraph BC12 of IFRS Practice Statement 2).

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13. As noted in paragraph 12 of this paper, IFRS Practice Statement 2 is applicable when preparing financial statements in accordance with IFRS Accounting Standards. The new Standard will be part of IFRS Accounting Standards. Therefore, eligible subsidiaries applying the new Standard would be able to refer to the guidance provided in the Practice Statement. That guidance is relevant and available irrespective of whether the entity applying IFRS Accounting Standards has public accountability or not.
 14. Therefore, the staff does not think it is necessary to develop separate guidance on applying materiality to disclosure requirements in the new Standard for eligible subsidiaries.

Overall disclosure objective

15. A few respondents said that an overall disclosure objective would facilitate the assessment of whether additional disclosures are needed. In the [Project Summary and Feedback Statement *Disclosure Initiative—Targeted Standards-level Review of Disclosures*](#) the IASB decided to use an approach to developing disclosure requirements in future standard-setting activities. As part of that approach, the IASB observed that an overall disclosure objective will provide an Accounting Standard-specific context of the overall user information needs to enable an entity to make materiality judgements and apply requirements about the specific disclosure objectives and items of information.²
16. In its April 2023 meeting, the IASB tentatively decided to exclude disclosure objectives from the new Standard.³ The IASB's view was that including the disclosure objectives may compel an eligible subsidiary to provide the same disclosures as if they had not applied the draft Standard, which would be contrary to the project objective.

² Page 18, Project Summary and Feedback Statement *Disclosure Initiative—Targeted Standards-level Review of Disclosures*

³ See [IASB Update](#) of the April 2023 IASB meeting.

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17. The new Standard is a disclosure-only Standard—it compiles in a single location *all* the disclosure requirements (and disclosure requirements in IFRS Accounting Standards that remain applicable) that an eligible subsidiary applying the new Standard has to apply. As such, an overall disclosure objective that provides an *Accounting Standard-specific* context of the overall user information needs that would enable eligible subsidiaries to make materiality judgements may not be applicable. Arguably, it would not be substantively different from what is proposed in paragraph 16 of the draft Standard or what is in paragraph 31 of IAS 1 in assessing whether to provide additional disclosures:

... An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in this [draft] Standard, including the requirements in other IFRS Standards that remain applicable, is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

18. Therefore, the staff does not think it is necessary to include an overall disclosure objective in the new Standard.

Prominence of paragraph 16 of the draft Standard

Interaction with fair presentation requirements in IAS 1

19. The staff agree with the feedback that the proposed requirements in paragraph 16 of the draft Standard are important. The staff also note that paragraph 31 of IAS 1 remains applicable⁴ which emphasises the importance of the requirements.

⁴ Disclosure requirements in IFRS Accounting Standards that remain applicable are indicated as a footnote to in the draft Standard. The IASB [tentatively decided in October 2022](#) to replace these footnotes with cross-references to disclosure requirements that remain applicable in other IFRS Accounting Standards, under each IFRS Accounting Standard subheading.

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20. The fair presentation requirements in IAS 1 remain applicable to eligible subsidiaries applying the new Standard; those requirements are not disclosure requirements and therefore neither affected nor modified by the proposed disclosure requirements in the draft Standard. The staff agrees with the respondent's observation that those fair presentation requirements in IAS 1 are an overriding requirement. In applying the new Standard, the eligible subsidiary would comply with the recognition, measurement and presentation requirements in IFRS Accounting Standards and the disclosure requirements in the new Standard. An eligible subsidiary would then assess whether in applying those requirements, whether its financial statements present fairly its financial position, financial performance and cash flows.
21. As noted in paragraph 15 of IAS 1, the application of IFRS Accounting Standards with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation. It follows that, in some instances, additional disclosures may be needed to enable users of eligible subsidiaries' financial statements to better understand the impact of particular transactions, other events and conditions on the eligible subsidiaries' financial position and financial performance. The staff does not think that this conflicts the objective of the Project—that is, to permit eligible subsidiaries to apply IFRS Accounting Standards with *reduced* disclosure requirements. As noted in paragraph 8 of the Practice Statement, materiality judgements are pervasive in the preparation of financial statements. Therefore, regardless of whether an eligible subsidiary that applies IFRS Accounting Standards elected to apply or not apply the new Standard, materiality judgements and considerations are always present.

Drafting considerations

22. The staff noted that the location of paragraph 16 of the draft Standard within the ‘*Application of disclosure requirements*’ (see paragraph 6) already gives the paragraph a degree of prominence. At its current location, it reminds eligible subsidiaries that in applying the proposed disclosure requirements set out in succeeding paragraphs they still consider materiality of the information those requirements provide.
23. The staff does not agree with the feedback to divide paragraph 16. This is because paragraph 16 of the draft Standard is based on paragraph 31 of IAS 1. Any changes in the drafting or the structure of paragraph 16 could risk unintended consequences in the application of paragraph 31 of IAS 1. For this same reason, the staff also thinks that the IASB should not explore ways to make the paragraph more prominent that will substantively affect the drafting or the structure of its proposed requirements.
24. The staff think that the IASB could:
 - (a) consider the location of paragraph 16 of the draft Standard *without* changing its drafting or structure, during drafting of the new Standard; or
 - (b) omit paragraph 16 of the draft Standard in the new Standard because paragraph 31 of IAS 1 is left applicable for eligible subsidiaries applying the new Standard.
25. On balance, the staff think that the proposed requirements in paragraph 16 of the draft Standard are of such importance that they should be included in the new Standard together with paragraph 31 of IAS 1 remaining applicable. As noted in paragraph 6 of the paper, reiterating the requirements of paragraph 31 of IAS 1 in the new Standard facilitates the application of the new Standard. The staff will consider the location of paragraph 16 in drafting the new Standard. For example, considering moving the paragraph within the ‘*Meeting the objective*’ section of the draft Standard.

Staff recommendation and question to the IASB

26. Based on paragraphs 9–25 of the paper, the staff recommends that the IASB does not:
- (a) add guidance on or revise paragraph 16 of the draft Standard; nor
 - (b) develop an overall disclosure objective in the new Standard.
27. The staff will consider the location of paragraph 16 of the draft Standard *without* changing its drafting or structure, during drafting of the new Standard.

Question for the IASB

Does the IASB agree with the staff recommendation set out in paragraphs 26–27 of this paper?