Staff paper

Agenda reference: 31C

IASB® meeting

Date	**May 2023**
Project	**Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
Topic	**Disclosure requirements about transition in other IFRS Accounting Standards**
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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 retain its proposal set out in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) that disclosure requirements specified in a new or amended IFRS Accounting Standard about the entity's transition to that new or amended Standard would remain applicable to an eligible subsidiary that applies the draft Standard.

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 require any disclosure requirements specified in a new or amended IFRS Accounting Standard about the entity's transition to that new or amended IFRS Accounting Standard to remain applicable to an eligible subsidiary that applies the new IFRS Accounting Standard (new Standard).

Structure of the paper

4. The paper is structured as follows:

   (a) background (paragraphs 5–8);

   (b) staff analysis (paragraphs 9–15); and

   (c) staff recommendation and question to the IASB (paragraph 16).

Background

IASB's proposal and question in the Invitation to Comment

5. The IASB proposed in the Exposure Draft that disclosure requirements about transition to a new or amended IFRS Accounting Standard set out in those IFRS Accounting Standards apply to eligible subsidiaries that apply the draft Standard (see paragraph BC58 of the Basis for Conclusions on the Exposure Draft).

6. Question 5 of the Invitation to Comment of the Exposure Draft asked whether respondents agree with the IASB's proposal.

Summary of feedback

7. Almost all respondents agreed that the disclosure requirements about transition to a new or amended IFRS Accounting Standards should remain applicable to an eligible subsidiary. Those respondents who agreed said the disclosure requirements about transition:

   (a) provide useful information to users of eligible subsidiaries' financial statements without imposing significant costs on those subsidiaries given that these are one-off disclosures; and

   (b) are expected to be material, particularly if they are about accounting policies, practical expedients and judgements.

8. A few respondents suggested the IASB considers:

   (a) including disclosure requirements about transition if, and only if, they provide useful information to users of eligible subsidiary's financial statements; or

   (b) whether the disclosure requirements about transition can be simplified. Such simplifications could be considered on a case-by-case basis to reduce the costs of eligible subsidiaries' preparation of financial statements.

Staff analysis

9. New and amended IFRS Accounting Standard normally include transition requirements that apply on initial application of that new or amended IFRS Accounting Standard. Occasionally, those transition provisions include disclosure requirements about an entity's transition to the new or amended IFRS Accounting Standard. Those disclosure requirements supplement, and occasionally replace, the disclosure requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

10. The IASB proposed that the disclosure requirements about transition in other IFRS Accounting Standards apply to eligible subsidiaries applying the draft Standard because those disclosure requirements are specific to that transition and are relevant only on initial application of that new or amended IFRS Accounting Standard (see paragraph BC58 of the Basis for Conclusions on the Exposure Draft). Consequently, the IASB did not include in Appendix A *Disclosure requirements in IFRS Standards replaced by this [draft] Standard* of the draft Standard, any disclosure requirements about transition.

11. As regards respondents' comment in paragraph 8(a) of this paper, transition provisions in new or amended IFRS Accounting Standards usually affect how an entity *transitions* to the new or amended IFRS Accounting Standards. In specified circumstances, those transition provisions permit expedients on initial application of

new or amended IFRS Accounting Standards (for example, see paragraph C13 of IFRS 16 *Leases*[1]).

12. Therefore, disclosure requirements relating to those transition provisions provide information about the entity's accounting policy choices, which meets one of the principles for reducing disclosure requirements.[2] They provide useful information to users of eligible subsidiary's financial statements.

13. As regards respondents' comment in paragraph 8(b) of this paper, simplifying disclosure requirements related to transition provisions, the IASB could in the future (in maintaining the new Standard) propose reduced disclosure requirements about transition to a new or amended IFRS Accounting Standard. The proposal could be made at the same time the IASB publishes an exposure draft of a new or amended IFRS Accounting Standard.[3]

14. In developing the draft Standard the IASB noted disclosure requirements about transition are specific to that transition and are relevant only on initial application of that new or amended IFRS Accounting Standard.

15. In the staff view the disclosure requirements about transition in other IFRS Accounting Standards enable users of financial statements to better understand the impact of initial application of a new or amended IFRS Accounting Standard. Consequently, the staff considers the IASB should retain its proposal in the draft Standard.

[1] Paragraph C13 of IFRS 16 *Leases* requires a lessee to disclose the fact that it uses one or more of the practical expedients permitted when it initially applied IFRS 16 using the cumulative catch-up transition method.

[2] The principles for reducing disclosure requirements applied by the IASB consider the information needs of users of non-publicly accountable entities' financial statements. These users find information about (i) short-term cash flows, obligations, commitments and contingencies, (ii) liquidity and solvency, (iii) measurement uncertainty, (iv) accounting policy choices and (v) disaggregation of amounts important.

[3] See IASB *Update* of the January 2023 IASB meeting.

Staff recommendation and question to the IASB

16. The staff recommends that the IASB proceed with its proposal to require any disclosure requirements specified in a new or amended IFRS Accounting Standard about the entity's transition to that new or amended IFRS Accounting Standard to remain applicable to an eligible subsidiary that applies the new Standard.

Question for the IASB
Does the IASB agree with staff recommendation set out in paragraph 16 of this paper?