

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FR Board or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## Subsidiaries without Public Accountability

### Cover Note

#### Objective

- 1 To seek the views of EFRAG FR TEG members on the clarifications to the definition of 'public accountability' published in the IASB [Exposure Draft: Third edition of the IFRS for SMEs Accounting Standard](#) and to consider whether EFRAG should comment on Question 1 of these proposals.

#### Background of the IASB project *Subsidiaries without Public Accountability*

- 2 On 26 July 2021 the IASB published [the ED Subsidiaries without Public Accountability](#) with the objective of developing a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries without public accountability. The description of public accountability, contained in paragraphs 7 and 8 of the ED, is from paragraphs 1.3 and 1.4 of the IFRS for SMEs Standard.
- 3 EFRAG published its Draft Comment Letter ('DCL') on 30 September 2021 which was open for comments until 26 January 2022. In its DCL, EFRAG welcomed the ED and the IASB's efforts to reduce disclosure requirements for subsidiaries without public accountability. EFRAG also cautiously agreed with the IASB's proposed scope but recognised that there was also support for the alternative view expressed by the IASB board member Françoise Flores in the Basis for Conclusions of the ED.
- 4 EFRAG then embarked into an extensive programme of outreach events and stakeholder meetings, in partnership with other organisations. EFRAG also conducted research activities that led to the publication of two briefings focused on the applicability of the IASB's ED in the European Union.
  - (a) [Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU?](#) focused on the scope of the IASB's project from an EU perspective; and
  - (b) [EFRAG Secretariat study on compatibility of the EU Accounting Directive with the IASB's Exposure Draft](#) included a two-step comparison of disclosure requirements in the ED and the EU Accounting Directive.
- 5 In general, participants in outreach events and respondents to EFRAG DCL welcomed the IASB's ED and acknowledged that the IASB's efforts would ease financial reporting for eligible subsidiaries while meeting the reasonable needs of the users of financial statements. When referring to the scope, European constituents expressed mixed views, in particular on whether and to what extent the

scope should be widened. European constituents also raised questions and some concerns on the interaction of the IASB's proposals with EU accounting law.

- 6 After consulting its constituents, EFRAG published its [final comment letter](#) on 25 February 2022 where it reiterated its initial support for the IASB's project and highlighted the requests from many constituents to widen the scope. However, as there was no clear consensus whether and to what extent the scope should be widened, EFRAG suggested that the IASB continues with the current scope of the project but in parallel assesses the possibility of a scope extension. In addition, EFRAG proposed that the IASB considers clarifying the concept of holding assets in a fiduciary capacity before issuing a finalised standard.
- 7 Alongside the concerns expressed about the term 'fiduciary capacity', EFRAG expressed concerns that the IASB uses the concept 'public accountability' when defining the scope of this project. This is because, its meaning is not often entirely clear for stakeholders (these concepts are not currently being used in IFRS Standards available for use in the EU) and it could be in conflict with existing legal terms used in different EU Member States. For example, National Standard Setters have expressed concerns that the notion of public accountability is different from the notion of Public Interest Entities, a similar term used in the European Union accounting law. Therefore, the IASB's proposals in this project are likely to also put pressure on the definition of 'public accountability'. Considering this, EFRAG would welcome further application guidance in this area.
- 8 On 14 April 2022, EFRAG issued a [feedback statement](#), which summarised the main comments received by EFRAG on its DCL to the IASB ED and explained how those comments were considered in EFRAG's FCL.
- 9 Also in April 2022, the IASB started to discuss the feedback received from comment letters and outreach events. In general, most respondents agreed with the objective of the draft Standard. However, respondents had mixed views on the proposed scope of the draft Standard. Although, some respondents agreed with the proposed scope of the draft Standard, many respondents suggested a wider scope. Nonetheless, respondents had different views on what that wider scope should be. Some respondents also suggested that the IASB considers widening the scope at a later stage, for example, after the draft Standard has been effective for a period of time. After considering the feedback received, the IASB tentatively decided to confirm the scope as proposed in the draft Standard and review the scope after the draft Standard has been finalised, possibly during the post-implementation review.
- 10 In July 2022, the IASB discussed this project at the Accounting Standards Advisory Forum (ASAF) meeting. In preparation for that meeting, the EFRAG FR TEG-CFSS members discussed this project on 28 June 2022 (summary of feedback received can be found [here](#)).
- 11 At the ASAF meeting, some members expressed concerns on how the terms used to define the scope of the draft Standard would interact with local regulations. These members noted that:
  - (a) the term 'public accountability' may result in a number of challenges, including on endorsement (e.g. it is a term similar but different from the legal term 'public interest entity' (PIE)); and
  - (b) the terms "available for public use" and "fiduciary capacity" should be clarified.
- 12 There were also questions on whether the benefits of applying the Standard would outweigh the costs as subsidiaries would still have to provide information for its parent's consolidated financial statements or would not be able to apply the Standard due to local legislation.
- 13 As respondents to the ED *Subsidiaries without Public Accountability*, expressed some concerns about applying the definition of public accountability contained in

paragraphs 7 and 8 of the ED, which is carried forward from paragraphs 1.3 and 1.4 of the IFRS for SMEs Standard, the IASB proposes now to amend those paragraphs in the IFRS for SMEs Standard. The IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability.

- 14 On the 4 October 2022, the EFRAG Secretariat discussed this issue with EFRAG IAWG and will provide an oral update to EFRAG FR TEG.

### **Background of the IASB project *IFRS for SMEs***

- 15 The IASB is carrying out a second comprehensive review of the *IFRS for SMEs Accounting Standard*, which the IASB issued in 2009 and amended in 2015 (as a result of the first comprehensive review).
- 16 As part of the first phase of the second comprehensive review, the IASB published a *Request for Information* requesting views on whether and, if so, how the *IFRS for SMEs Accounting Standard* should be updated to take account of IFRS Accounting Standards and amendments not currently incorporated into the *IFRS for SMEs Accounting Standard*.
- 17 During the second phase of the second comprehensive review, in response to feedback on the *Request for Information* and advice of the SME Implementation Group, the IASB published on 8 September 2022 proposals to update the *IFRS for SMEs Accounting Standard* to reflect improvements made to full IFRS Accounting Standards, while keeping the Standard suitable for small and medium-sized entities: [Exposure Draft: Third edition of the IFRS for SMEs Accounting Standard](#). The deadline for comments is 7 March 2023.
- 18 Section 1 of the ED includes clarifications to the definition of public accountability. The IASB refers [as a reason for the proposed change](#) to the feedback received on the ED *Subsidiaries without Public Accountability* in the Introduction, Basis for Conclusions and in question 1 of the ED: [Third edition of the IFRS for SMEs Accounting Standard](#).

### **Key discussion points for the session**

- 19 The first question of the ED covers the scope of the *IFRS for SMEs Accounting* and more precisely the proposed clarifications to the definition of ‘public accountability’. The IASB states that the proposed clarifications will not change the intended scope of the Standard.
- 20 As the IASB proposals might potentially affect the scope of the *Subsidiaries without Public Accountability* project, the EFRAG Secretariat suggests discussing them during this meeting and to consider whether EFRAG should comment on the IASB proposals related to “the definition of public accountability” included in the ED *Third edition of the IFRS for SMEs Accounting Standard*.

#### **Questions for EFRAG FR TEG**

- 21 Does EFRAG FR TEG agree with the clarifications to the definition of ‘public accountability’ proposed by the IASB?
- 22 Does EFRAG FR TEG consider that EFRAG should comment on the first question of the IASB ED *Third edition of the IFRS for SMEs Accounting Standard*?
- 23 If EFRAG should comment on the IASB proposals, what are EFRAG FR TEG views on key messages to be included in a draft comment letter?

**Next steps**

24 The EFRAG Secretariat to follow the EFRAG FR TEG recommendations.

**Agenda Papers**

25 In addition to this cover note, agenda paper 05-02 – *IFRS for SMEs – definition of public accountability* – has been provided for the session.