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EFRAG
European Financial Reporting Advisory Group

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SUMMARY OF THE INPUTS RECEIVED FROM PREPARERS

EFRAG survey: Would you like less disclosures for subsidiaries?

Introduction

About this report

EFRAG has conducted a questionnaire-based survey to gather the views of European constituents on *Subsidiaries without Public Accountability: Disclosures*. The survey consisted of two parts, one for subsidiaries and one for parent entities, both gathering the views of preparers.

About the Exposure Draft

On 26 July 2021, the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* ('ED'). The objective is to develop a reduced-disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries without public accountability while allowing entities to apply measurement and recognition principles from full IFRS Standards.

More specifically, an entity would be permitted to apply the reduced-disclosure IFRS Standard in its consolidated, separate or individual financial statements if, at the end of its reporting period, it:

- is a subsidiary;
- does not have public accountability (i.e., its debt or equity instruments are not traded in a public market or it is not in the process of issuing such instruments for trading in a public market; and it does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses); and
- has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards.

The reduced-disclosure IFRS Standard would be part of full IFRS Standards and subject to endorsement in the European Union.

In the ED, the IASB proposes reduced disclosure requirements for those in the scope of the project. However, some disclosure requirements in other IFRS Standards would remain applicable when a subsidiary applies the draft Standard. More specifically, the disclosure requirements that are not listed in Appendix A of the ED would remain applicable (Appendix A of the draft Standard lists the disclosure requirements in IFRS Standards that are replaced when a subsidiary applies the draft Standard for reduced disclosure requirements). To ease application, the IASB decided to include those requirements from other IFRS Standards that remain applicable in a footnote to the subheading of the IFRS Standard to which they relate.

That means that all disclosure requirements are listed either in the main body of the ED or in a footnote. Moreover, the disclosure requirements in the following IFRS Standards remain applicable: IFRS 8 *Operating Segments*, IFRS 17 *Insurance Contracts*, and IAS 33 *Earnings per Share*.

Additional background information can be found in the snapshot of the ED.

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Executive Summary

In November 2021, EFRAG launched its survey *Would you prefer less disclosures for subsidiaries?* to gather input from constituents for its Final Comment Letter to the IASB's proposed Exposure Draft (ED) *Subsidiaries without Public Accountability: Disclosures*.

The survey was targeted at preparers - subsidiaries or parent entities. The feedback from preparers' responses is used to inform EFRAG on the costs and benefits and some of the content of the IASB's proposals. Preparers were able to respond to the survey until 20 January 2022. Nine parent entities and five subsidiaries responded to their respective parts of the survey.

EFRAG is now issuing a summary of the feedback received from preparers participating. The exact wording of the questions and detailed responses can be found in Appendix 1 (parents) and Appendix 2 (subsidiaries).

Use of this summary of the inputs received

This summary has been prepared as a formal record of the responses received. It summarises the messages received from constituents and notes any key themes identified. The feedback received on the questionnaire will be used by EFRAG in drafting its Final Comment letter to the IASB.

Definition of terms

This summary uses the following terms to describe the extent to which particular feedback was shared by respondents (both when referring to total respondents or a subset of respondents).

The % in this document refers to the total number of respondents to the relevant question, unless indicated differently.

Term	Extent of response among respondents
Almost all	90% - 100%
Most	75% - 89%
Majority	50% - 74%
Many, significant	25% - 49%
Some, others	0% - 24%

Key messages of the responses received

EFRAG has received a total of 14 responses to its survey (nine parents and five subsidiaries - more details are in Appendices 1 and 2). The overall key messages of the feedback from European preparers are summarised as follows:

- Most entities expect significant **ongoing cost-savings** at both subsidiary and parent level, particularly in terms of a reduction of costs with employees, reduction in auditing costs and elimination of the need to maintain additional accounting records;
- Only one parent entity and one subsidiary considered that **no significant cost-savings** are expected (e.g., still having to produce the detailed IFRS disclosures for the group reporting package);
- Many subsidiaries and parent entities highlighted the **benefit of preparing financial statements under IFRS Standards**, as users of financial statements prefer the use of IFRS Standards;
- For subsidiaries that are **currently applying full IFRS Standards**, the initial **implementation costs** were assessed to be insignificant;
- For subsidiaries that would apply the reduced disclosure IFRS Standard and **adopt IFRS Standards for the first time** (e.g., were previously applying local GAAP), the majority of the respondents identified one or more areas where significant **implementation costs** were expected (the questionnaire addressed implementation costs in general, without splitting costs for recognition and measurement and disclosures);
- Most participants of the survey considered that the current **scope of the project** should be broader but had mixed views on which entities should then be included. Nonetheless, many parent entities agreed that the scope should at least include associates, joint ventures and joint operations without public accountability; and
- Many parent entities and subsidiaries considered the proposed Standard to be very helpful. However, there was mixed feedback about a potential **application of the proposed Standard**. Several respondents highlighted in their comments that applicability depends on whether IFRS Standards were allowed for annual accounts in local jurisdictions, reflecting the different use of the options in Regulation (EC) No 1606/2002.

Part 1 - Summary of the survey responses from parent entities[1]

General information (Q1-Q3)

EFRAG has received nine responses from parent entities to its survey.

Respondents stemmed from diverse European backgrounds as almost each response was provided by an entity from a different EU member state. The survey also attracted respondents from a wide range of economic sectors.

The participants provided an estimation of their number of subsidiaries which ranged from seven subsidiaries to more than 350, with most groups (75%) consisting of 100 subsidiaries or less (Q1).

Most respondents (88.9%) **applied full IFRS Standards to their consolidated financial statements** with some (22.2%) simultaneously applying local GAAP (Q2).

Most respondents (77.8%) had subsidiaries that **applied** either **only local GAAP** or **local GAAP in combination with full IFRS Standards** to their **individual, separate and/or sub-consolidated financial statements**. Many (33.3%) participants had subsidiaries that solely applied full IFRS Standards to their financial statements, while some (22.2%) indicated that they had subsidiaries that applied the *IFRS for SMEs* Standard (Q3).[2]

Costs and benefits (Q4-Q10)

In the questions relating to costs and benefits, the respondents were asked to assess the potential impact they expected when applying the IASB's proposals to the financial statements of their subsidiaries.

For subsidiaries that would apply the reduced disclosure IFRS Standard and **adopt IFRS Standards for the first time** (i.e., were previously applying local GAAP or the *IFRS for SMEs* Standard), many respondents (37.5%) did not expect significant implementation costs. However, the majority of respondents (62.5%) identified one or more areas where **significant implementation costs** were expected (Q4+Q5).[3]

For subsidiaries that were already applying IFRS Standards, most respondents (75%) expected **no significant implementation costs** when applying the IASB's proposals for the first time (Q6).[4]

When assessing the expected ongoing costs after initial application of the IASB's proposals, most of the respondents (77.8%) indicated that they do **not expect significant additional ongoing costs** (Q7).

In terms of **expected cost-savings**, most respondents (88.9%) estimated that there are one or more areas where costs will be saved. Many respondents expected a reduction in costs regarding employees and auditing (44.4% each) as well as a reduction of costs due to eliminating the need of maintaining additional accounting records (33.3%) (Q8+Q9).

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[1] The exact wording of the questions and detailed responses can be found in Appendix 1.

[2] Multiple answers were available to the respondents.

[3] Respondents had the option to deem this question not to be applicable to their situation. These responses (1) were excluded from the interpretation of results.

[4] Respondents had the option to deem this question not to be applicable to their situation. These responses (1) were excluded from the interpretation of results.

The respondents to the part for parent entities were split when assessing whether they expect any **additional benefits** beyond cost-savings as the majority (55.6%) expected additional benefits while many others (44.4%) did not (Q10).

Content of the ED (Q11-Q18)

In the section relating to the content of the ED, respondents provided input on general impacts of the ED.

The majority (55.6%) of respondents expected the disclosure requirements in the **ED to be clear and easy to apply**, while the other respondents were not able to assess the applicability at this stage (Q11).

Most participants (77.8%) considered that the **current scope of the project should be broader**. However, there was no consensus on how the scope should be broadened. Nonetheless, a significant number of responses (44.4%) were in favor of broadening the scope to include associates, joint ventures and joint operations without public accountability (Q12).

Most respondents (88.9%) stated that they do **not have subsidiaries that issue any contracts** under IFRS 17 *Insurance Contracts*. The only participant who had a subsidiary that issues insurance contracts (captive insurer serving group purposes) commented that it would be difficult to assess, at this stage, whether there will be any benefit for the subsidiary if the disclosure requirements in IFRS 17 would also be reduced (Q13-Q15).

Many respondents (44.4%) expected the **ED to contain sufficient information for users**, while a significant number of respondents (44.4%) were not able to make such an assessment at this stage. One participant (11.1%) commented that disclosures regarding financial instruments should be reduced (Q16+Q17).

In their final assessment, many respondents (44.4%) expected to **apply the proposed ED to** the **separate financial statements of their subsidiaries** while an equal number of respondents (44.4%) was not able to make such an assessment at this stage. One respondent (11.1%) considered the proposed Standard very helpful but highlighted that it will not be applied until local law allowed for IFRS Standards in annual accounts (Q18).

Part 2 - Summary of the survey responses from subsidiaries[5]

General information (Q1-Q5)

EFRAG has received 5 responses from subsidiaries to its survey.

Respondents stemmed from diverse backgrounds as all of them operated in different economic sectors and only two respondents had the same country of origin (Q1).

All of the subsidiaries that responded to the survey (100%) had an **ultimate parent** that **prepared consolidated financial statements under IFRS Standards** and most of them (80%) also **submitted an IFRS reporting package** to their parent. The majority of participants (60%) indicated in their responses that they either **apply full IFRS Standards** to their **annual financial statements** or **full IFRS Standards in addition to local GAAP** (Q2-Q5).

Costs and benefits (Q6-Q11)

Most respondents to the survey (80%) expected that there will be **no significant implementation costs** for preparers (Q6+Q7).

[5] The exact wording of the questions and detailed responses can be found in Appendix 2.

After initial implementation, all of the respondents (100%) shared their expectation that there will be **no significant change in ongoing costs** (Q8).

Most of the respondents (80%) also agreed that with the proposed disclosure requirements, there will be **significant cost-savings** for subsidiaries. These respondents mainly expected employee cost-savings (80%) and a reduction in auditing costs (60%) (Q9+Q10).

The majority of respondents (60%) also **expected benefits** beyond cost-savings, especially the benefit of using IFRS Standards as users tend to prefer them (40%) (Q11).

Content of the ED (Q12-Q18)

The majority of respondents (60%) agreed that it is **difficult to predict** whether the **ED will be clear and easy to apply** and did not express a clear view about the assessment of the potential impact on the disclosures (Q12+Q13).

Many participants (40%) expected the proposed **ED to reduce the disclosures in their notes** to the financial statements but estimated the impact to be less than 20% of the total number of disclosures. Many respondents (40%) also found such an assessment difficult at this stage (Q14).

Most of the respondents (80%) assessed that the **disclosure requirements** will be **sufficient for the users** of their financial statements (Q15).

None of the respondents **issued insurance contracts** under IFRS 17 (Q16).

In their final assessment, the majority of respondents (60%) did **not expect the ED to be adopted**. In their comments, they highlighted that the application of the ED depended on their local jurisdiction and whether IFRS Standards would be allowed for annual accounts. Another respondent highlighted that there was already a reduced disclosure option in local GAAP which would be preferred to the ED (Q17+Q18).

The Appendices provide detailed information on the 14[6] responses received. This section will be split into two separate reports as some of the individual questions and, therefore, also the answers differed between the two parts of the survey.

[6] Nine responses from the survey for parent entities and five responses from the survey for subsidiaries.

Appendix

Appendix 1

Report for EFRAG Survey on Subsidiaries without public accountability – questions for parent entities

Appendix 2

Report for EFRAG Survey on Subsidiaries without public accountability – questions for subsidiaries