

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in 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 The objective of the session is to:
  - (a) provide EFRAG FRB members an update on the IASB's latest tentative decisions; and
  - (b) to seek views on the expected benefits and costs of the proposals for stakeholders in their jurisdiction to help develop the IASB's Effects Analysis.

### Background

- 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 on an extensive programme of outreach events and stakeholder meetings, in partnership with various 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 its scope. However, as there was no clear consensus whether and to what extent the scope should be extended, 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 final 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.
  - 10 In July 2022, the IASB discussed the Interaction between local regulations and the proposed IFRS Accounting Standard 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 In September 2022, the EFRAG FR TEG-CFSS members received an update, discussed the use of the concept 'available for public use', the proposed disclosure requirements and the structure of the draft IFRS Standard.
  - 12 In October 2022, EFRAG FRB considered whether EFRAG should comment on the proposed clarifications to the definition of 'public accountability' included in Question 1 of the IASB Exposure Draft Third edition of the IFRS for SMEs Accounting

Standard. After discussing this issue, EFRAG FRB members decided not to comment on the Question 1 of the IASB ED as there was no consensus.

## EFRAG TEG-CFSS meeting to prepare the 27 March 2023 ASAF meeting

- 13 In March 2023 the [IASB requested ASAF members](#) to express their views on potential effects (costs and benefits) of applying the Standard as proposed in the Exposure Draft.
- 14 On 15 March 2023, the EFRAG FR TEG and EFRAG CFSS members received an update on the IASB’s latest tentative decisions and discussed the expected benefits and costs of the IASB’s proposals for stakeholders in their jurisdiction.
- 15 In general, EFRAG FR TEG and EFRAG CFSS members supported the direction of the redeliberations and recognised that this project would simplify and reduce the cost of financial reporting for eligible subsidiaries and their parents, even in jurisdictions that currently do not allow or require the use of IFRS Accounting Standards in the annual accounts (e.g., for international groups), while still providing relevant information to users of financial statements. One CFSS member reported that in his jurisdiction the applicability of IFRS for individual financial statements is currently being investigated and discussed.
- 16 However, EFRAG FR TEG and EFRAG CFSS members pointed out as critical point how the IASB’s proposals would interact with European legislation, particularly if the reduced-disclosure IFRS Accounting Standard would not include specific disclosures that are currently required by the Accounting Directive 2013/34/EU. If such a Standard would be endorsed in Europe, the EU members states would have to carefully consider disclosures that are currently required in the EU Accounting Directive but not in the final reduced-disclosure IFRS Accounting Standard. Finally, one member stated that the IASB had adopted a strict approach towards insurance companies. In his view, the definition of fiduciary capacity in IFRS 17 might create uncertainty in the application of the standard, as some jurisdictions or insurance entities were not acting on a fiduciary capacity.
- 17 The key topics discussed by the IASB until now can be found below:

<p><b>Objective</b> <i>IASB October 2022</i></p>	<ul style="list-style-type: none"> <li>• The IASB discussed the proposed objective of the draft Standard.</li> </ul>
<p><b>Scope of the project</b> <i>IASB September 2022 and November 2022</i></p>	<ul style="list-style-type: none"> <li>• The IASB discussed the feedback received on the proposed scope of the draft Standard and discussed whether it should confirm the proposed scope, including the proposal that the parent’s consolidated financial statements are ‘available for public use.</li> </ul>
<p><b>Structure of the draft standard</b> <i>IASB October 2022</i></p>	<ul style="list-style-type: none"> <li>• The IASB discussed the structure of the draft Standard and whether it should modify, retain or omit Appendix A and footnotes related to disclosure requirements that remain applicable proposed in the draft Standard.</li> </ul>

<p><b>Approach to developing the proposed disclosure requirements</b> <i>IASB October 2022</i></p>	<ul style="list-style-type: none"> <li>The IASB discussed the feedback on the approach to developing the proposed disclosure requirements of the draft Standard and discussed whether it should modify it to ensure that the language used in the disclosure requirements are the same as IFRS Accounting Standards.</li> </ul>
<p><b>Addressing comments on proposed disclosure requirements</b> <i>IASB October 2022</i></p>	<ul style="list-style-type: none"> <li>The IASB discussed the process and how the IASB staff should analyse the comments received on the proposed disclosure requirements in the draft Standard.</li> </ul>
<p><b>Others</b> <i>December 2022</i></p>	<ul style="list-style-type: none"> <li>The IASB discussed other topics such as IFRS Accounting Standards without reduced disclosure requirements, proposed reduced disclosure requirements in IAS 34 and a proposed statement of compliance</li> </ul>
<p><b>Maintenance of the Standard:</b> <i>IASB January 2023</i></p>	<ul style="list-style-type: none"> <li>The IASB discussed when to update the Standard for new disclosure requirements or amendments to disclosure requirements arising from new IFRS Accounting Standards or amendments to IFRS Accounting Standards.</li> </ul>
<p><b>Transition matters— interactions with IFRS 1 and changes in accounting policies</b> <i>IASB January 2023</i></p>	<ul style="list-style-type: none"> <li>The IASB discussed the interaction between IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and the Standard and whether electing or revoking an election to apply the draft Standard requires an eligible subsidiary to apply the requirements on changes in accounting policies in IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i></li> </ul>

**Questions for EFRAG FRB Members**

- 18 Do EFRAG FRB members have any comments on the IASB’s tentative decisions to date? (agenda paper 12-02)
- 19 Do EFRAG FRB members agree on EFRAG Secretariat analysis on the IASB’s latest tentative decisions? (agenda paper 12-02)
- 20 What are your views on potential effects (costs and benefits) of applying the Standard as proposed in the Exposure Draft? (agenda paper 12-03)
- 21 Do you agree that the benefits of applying the Standard will outweigh the costs of applying it? (agenda paper 12-03)

**Next steps**

- 22 The EFRAG Secretariat will continue to monitor the IASB’s discussions, which are likely to focus on addressing specific comments on the proposed disclosure requirements.

## Agenda Papers

- 23 In addition to this cover note, agenda papers for this session are:
- ( ) Agenda paper 12-02 – Update on the IASB tentative decisions
  - (a) Agenda paper 12-03 – Expected costs and benefits