Submitted via website

27 January 2022

Mr Andreas Barckow
IASB Chair
IFRS Foundation
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United Kingdom

Dear Mr. Barckow

Subject: Exposure Draft: Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures ICPAC comment letter

We are pleased to respond to the International Accounting Standards Board's (IASB or the Board) Exposure Draft (ED): Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures. Our main points, in summary, are shown below:

1. The Institute of Certified Public Accountants of Cyprus (ICPAC) welcomes the initiative, as it is indeed a move towards the right direction for better, more efficient financial reporting, in particular for those entities which could have applied a simpler accounting regime (e.g., IFRS for SMEs) but are not allowed under local legislation (e.g. the Cypriot SMEs).

2. We have some concerns on the narrowly defined scope of the ED. Though we fully agree on the public accountability criterion, we are not convinced that the Board's proposal to limit the applicability to subsidiaries would help in fully achieving the objective of this project. As noted in the Basis for Conclusions, the Board developed the proposed disclosure requirements following an approach relevant for all entities without public accountability, hence without taking into account any characteristics of a subsidiary. The standard is associated with cost savings, dismissing any unnecessary disclosures and thus no entity should be restricted in its use.

3. We agree with the exceptions as explained in the ED.

4. We call for consistency with other initiatives under the same overarching project.

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Attached to this letter are our detailed responses on the ED as shown in Annex 1 below.

Should you need any clarification or additional information on our paper, please feel free to contact my colleague Eleni Ashioti (eleni.ashioti@icpac.org.cy), who heads the Technical and Professional Matters unit.

Yours sincerely

Kyriakos Iordanou
General Manager

About ICPAC

The Institute of Certified Public Accountants of Cyprus (ICPAC) is the relevant authority for the accountancy profession in Cyprus. Established in 1961, ICPAC currently counts more than 5.300 professional accountants as members and another 3,500 students and graduates. Its principal objectives include the provision of an organisational framework for all professional accountants, the support and the promotion of the activities and interests of the accountancy profession, safeguarding the reputation of the profession and adherence to the Code of Ethics by all its members, as well as the continuous professional development and updating of members on issues relevant to accounting, auditing and other business matters. In addition, ICPAC has been delegated by the state the task to regulate the audit profession and is also a competent authority under the Anti-Money Laundering laws, the Laws on the regulation of enterprises providing administrative services and the Insolvency Practitioners Law. ICPAC also provides assistance to the Government and its departments for technical matters, participates in the parliamentary consultation process, as well as cooperates harmoniously with other bodies of the private sector. Furthermore, ICPAC is active outside the boundaries of Cyprus via a network of international accountancy and other professional bodies.

Annex 1: IASB ED – Questions for respondents

We are pleased to provide below our detailed responses to the questions.

Question 1 – Objective

> *Paragraph 1 of the draft Standard proposes that the objective of the draft Standard Subsidiaries without Public Accountability: Disclosures is to permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards.*
>
> *Do you agree with the objective of the draft Standard? Why or why not? If not, what objective would you suggest and why?*

ICPAC welcomes the objective of the ED to permit eligible subsidiaries to apply the disclosure requirements in this standard and the recognition, measurement, and presentation requirements in IFRS standards.

ICPAC is also in agreement with the public accountability criterion. Entities without public accountability can still discharge their responsibilities for financial reporting without the full burden of complying with the full IFRS, however with this proposal, they can at least adhere to the recognition, measurement and presentation in IFRS.

During the transition of the EU Accounting Directive, Cyprus decided the use of IFRS in the annual accounts and/or consolidated financial statements for all entities (public traded and non-publicly traded). Therefore, the number of subsidiaries that are expected to benefit from this standard is expected to be high.

Question 2 - Scope

> *Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the Board's reasons for that proposal.*
>
> *Do you agree with the proposed scope? Why or why not? If not, what approach would you suggest and why?*

Although we have some sympathy for the arguments that the Board put forward in limiting the scope to subsidiaries (as explained in the relevant paragraphs 6-8), we support Ms Flores position as mentioned in the Basis of Conclusion. Whereas we agree with designing disclosure requirements that are specific to entities without public accountability and that apply IFRS recognition and measurement requirements, we do not agree with restricting such requirements to subsidiaries that are SMEs. As noted in the Basis for Conclusions, the Board developed the proposed disclosure requirements following an approach relevant for all entities without public accountability, and hence without taking into account any characteristics of a subsidiary. The standard is associated with cost savings dismissing any unnecessary disclosures and thus no entity should be restricted its use.

We understand that the current proposal is framed with the current scope in mind. Should the Board consider widening the scope, then it would be necessary to reflect on the minimum disclosure requirements, in light of the needs of the (primary) users, most probably management and credit providers (credit institutions) would cover most of them and assess whether they would provide sufficient and relevant information to cater for their needs.

In Europe, the IFRS for SMEs standard is not used and therefore cannot be seen as competing with this standard. Such standard would help entities that apply IFRS, considering that, as mentioned in paragraph AV7 of the Basis for Conclusions, any entity without public accountability currently applying IFRS Standards should be helped to eliminate from its financial statements disclosures that are not deemed relevant.

With respect to the definition of public accountability, we note that this differs from the definition provided in article 2 of the 2013/34/EU Accounting Directive. For example, Cypriot public interest entities (PIEs) are considered those that are listed in regulated markets, those that are financial institutions and insurance undertakings.

To be able to use the standard at a jurisdiction level, this will need to be endorsed in the European Union (EU). If this is endorsed, then we expect that EU Member States, such as Cyprus which requires IFRS for all entities, will be able to use this standard automatically without any restrictions.

Question 3 - Approach to developing the proposed disclosure requirements

> *Paragraphs BC23–BC39 of the Basis for Conclusions explain the Board's reasons for its approach to developing the proposed disclosure requirements.*
>
> *Do you agree with that approach? Why or why not? If not, what approach would you suggest and why?*

ICPAC agrees with the Board's approach to developing the proposed disclosure requirements. The approach is set at a reasonable basis.

Question 4 – Exceptions to the approach

Paragraphs BC40–BC52 of the Basis for Conclusions explain the Board's reasons for the exceptions to its approach to developing the proposed disclosure requirements.

Exceptions (other than paragraph 130 of the draft Standard) relate to:

- *disclosure objectives (paragraph BC41);*
- *investment entities (paragraphs BC42–BC45);*
- *changes in liabilities from financing activities (paragraph BC46);*
- *exploration for and evaluation of mineral resources (paragraphs BC47–BC49);*
- *defined benefit obligations (paragraph BC50);*
- *improvements to disclosure requirements in IFRS Standards (paragraph BC51); and*
- *additional disclosure requirements in the IFRS for SMEs Standard (paragraph BC52).*

(a) Do you agree with the exceptions? Why or why not? If not, which exceptions do you disagree with and why? Do you have suggestions for any other exceptions? If so, what suggestions do you have and why should those exceptions be made?

(b) Paragraph 130 of the draft Standard proposes that entities disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The proposed requirement is a simplified version of the requirements in paragraphs 44A–44E of IAS 7 Statement of Cash Flows.

(i) Would the information an eligible subsidiary reports in its financial statements applying paragraph 130 of the draft Standard differ from information it reports to its parent (as required by paragraphs 44A–44E of IFRS 7) so that its parent can prepare consolidated financial statements? If so, in what respect?

(ii) In your experience, to satisfy paragraphs 44A–44E of IAS 7, do consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

(a) We agree with the exceptions provided.
(b) (i) We do not think that the information an eligible subsidiary reports in its financial statements would differ from information it reports to its parent.
(b) (ii) From our experience, consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Question 5 – Disclosure requirements about transition to other IFRS Standards

Any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the Standard.

Paragraphs BC57–BC59 of the Basis for Conclusions explain the Board's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

We agree – if there are additional requirements which go beyond this standard, then this information will not be presented.

Question 6 – Disclosure requirements about insurance contracts

The draft Standard does not propose to reduce the disclosure requirements of IFRS 17 Insurance Contracts. Hence an entity that applies the Standard and applies IFRS 17 is required to apply the disclosure requirements in IFRS 17.

Paragraphs BC61–BC64 of the Basis for Conclusions explain the Board's reasons for not proposing any reduction to the disclosure requirements in IFRS 17.

(a) Do you agree that the draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17? Why or why not? If you disagree, from which of the disclosure requirements in IFRS 17 should an entity that applies the Standard be exempt? Please explain why an entity applying the Standard should be exempt from the suggested disclosure requirements.

(b) Are you aware of entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard? If so, please say whether such entities are common in your jurisdiction, and why they are not considered to be publicly accountable.

(a) ICPAC acknowledges the fact that it is too early to assess the requirements deriving from IFRS 17. A post implementation review would be of most help in this case to help identify which disclosures should be cut down as well as a dialogue with preparers.

Reducing disclosure requirements for insurance contracts within the scope of IFRS 17 is something that should be considered in the future as there are cases whereby a group/company which does not have public accountability may have insurance contracts, and thus fall under the scope of this standard.

(b) One example we are aware of are protection and indemnity insurance clubs..

Question 7 – Interaction with IFRS 1 First-time Adoption of International Financial Reporting Standards

Paragraphs 23–30 of the draft Standard propose reduced disclosure requirements that apply to an entity that is preparing its first IFRS financial statements and has elected to apply the Standard when preparing those financial statements.

If a first-time adopter of IFRS Standards elected to apply the draft Standard, the entity would:

• apply IFRS 1, except for the disclosure requirements in IFRS 1 listed in paragraph A1(a) of Appendix A of the draft Standard; and

• apply the disclosure requirements in paragraphs 23–30 of the draft Standard.

This approach is consistent with the Board's proposals on how the draft Standard would interact with other IFRS Standards.

However, IFRS 1 differs from other IFRS Standards—IFRS 1 applies only when an entity first adopts IFRS Standards and sets out how a first-time adopter of IFRS Standards should make that transition.

(a) Do you agree with including reduced disclosure requirements for IFRS 1 in the

draft Standard rather than leaving the disclosure requirements in IFRS 1?

Paragraphs 12–14 of the draft Standard set out the relationship between the draft

Standard and IFRS 1.

(b) Do you agree with the proposals in paragraphs 12–14 of the draft Standard?

Why or why not? If not, what suggestions do you have and why?

We agree with the IASB proposed requirements for first time adopters of IFRS standards.

Question 8 –The proposed disclosure requirements

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. In addition to your answers to Questions 4 to 7:

(a) Do you agree with those proposals? Why or why not? If not, which proposals do

you disagree with and why?

(b) Do you recommend any further reduction in the disclosure requirements for an entity that applies the Standard? If so, which of the proposed disclosure requirements should be excluded from the Standard and why?

(c) Do you recommend any additional disclosure requirements for an entity that applies the Standard? If so, which disclosure requirements from other IFRS Standards should be included in the Standard and why?

(a) We agree with the proposals.
(b) We do not recommend any further reduction in the disclosure requirements for an entity that applies the Standard.
(c) We do not recommend any additional disclosure requirements for an entity that applies the Standard.

Question 9 – Structure of the draft Standard

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. These disclosure requirements are organised by IFRS Standard and would apply instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A. Disclosure requirements that are not listed in Appendix A that remain applicable are generally indicated in the draft Standard by footnote to the relevant IFRS Standard heading. Paragraphs BC68–BC70 explain the structure of the draft Standard.

Do you agree with the structure of the draft Standard, including Appendix A which lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard? Why or why not? If not, what alternative would you suggest and why?

Information is provided in different sections in the ED. We propose that the use of footnotes is reproduced in the main body of disclosures. We consider that this would be very helpful to both preparers and auditors.

Question 10 – Other comments

> *Do you have any other comments on the proposals in the draft Standard or other matters in the Exposure Draft, including the analysis of the effects (paragraphsBC92–BC101 of the Basis for Conclusions)?*

We call on the IASB to assess the consistency between the Disclosure Requirements in IFRS Standards - A Pilot Approach project and this project, since the former aims to improve financial statement disclosures using an objective based approach as opposed to this ED which is based on minimal required disclosures.