EFRAG
European Financial Reporting Advisory Group

Draft Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 26 January 2022.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 2022]

Dear Mr Barckow,

Re: Exposure Draft *Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures,* issued by the IASB on 26 July 2021 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG welcomes the IASB's efforts in developing reduced disclosure requirements for subsidiaries without public accountability. This project responds to a demand from respondents to the IASB's 2015 Agenda Consultation to undertake a project which would allow subsidiaries without public accountability to use the recognition and measurement requirements of IFRS Standards with less onerous disclosure requirements.

Summary of EFRAG's views on the ED

In general, EFRAG agrees with the proposed objective of specifying reduced disclosure requirements for the financial statements of subsidiaries that are in the scope of the project and permitting the use of the reduced disclosures together with the recognition, measurement and presentation requirements in IFRS Standards.

Scope

At this stage, EFRAG cautiously agrees with the IASB's proposed scope. However, EFRAG recognises that there is also support for the alternative view expressed by Ms Françoise Flores in the Basis for Conclusion of the ED. Therefore, EFRAG has decided to ask constituents for their views on the scope of the ED.

EFRAG highlights that the IASB's proposals in this project are likely to put pressure on the definition of 'available for public use'.

Finally, EFRAG is concerned about the IASB's proposals that the entity must be a subsidiary without public accountability at the end of the reporting period in order to be included in the scope of the project.

Developing the proposed disclosure requirements

EFRAG welcomes the IASB's proposal to consider the principles in paragraph BC157 of *IFRS for SMEs* when there is a need to tailor the disclosure requirements.

However, EFRAG considers that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations.

EFRAG also highlights the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between *IFRS for SMEs* and IFRS Standards but there are differences in timing between the two.

Exceptions to the approach

EFRAG is concerned that in some cases the IASB's reasoning for making the exceptions is not entirely clear, making them complex to understand. In addition, EFRAG is also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seems to be incomplete.

The IASB should also consider the interaction between its Exposure Draft on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the Exposure Draft *Disclosure Requirements in IFRS Standards - A Pilot Approach* (where the emphasis is put on defining the disclosure objectives and not on the list of disclosures).

Disclosure requirements about transition to other IFRS Standards

EFRAG welcomes that disclosure requirements for transition provisions of new and amended IFRS Standards would have to be applied by subsidiaries without public accountability that elect to apply the reduced-disclosure IFRS Standard.

EFRAG also welcomes paragraph 5 of the ED which clearly states that any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard would remain applicable, even if these disclosures are not inside the reduced-disclosure IFRS Standard itself.

Disclosure requirements about insurance contracts

EFRAG acknowledges the IASB's arguments included in paragraph BC64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for insurance contracts. However, EFRAG considers that they are not compelling and that the application a full set of disclosure requirements for IFRS 17 *Insurance Contracts* might result in undue costs and efforts and bring no or little benefit to the users of financial statements.

Therefore, EFRAG is asking a question to constituents to better understand what entities in the scope of the ED issue insurance contracts and what type of disclosures would be relevant for them.

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

EFRAG agrees with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary should apply the disclosure requirements proposed in the ED. EFRAG also welcomes the IASB's clarification in paragraph 13 of the ED on the interaction with IFRS 1.

Nonetheless, it may be useful to clarify in the main body of the ED that the use the of reduced disclosure IFRS Standard is not a change in an accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The proposed disclosure requirements

EFRAG highlights that the assessment of users' needs in terms of disclosures (i.e. whether the IASB's proposed disclosures are sufficient) is difficult and subjective.

Therefore, EFRAG expects that during its consultation period EFRAG will receive more input on disclosures that should be added or deleted.

Nonetheless, EFRAG suggests that the IASB adds a number of disclosures identified in Appendix 1 as they are relevant for users of financial statements and would not increase significantly the costs for preparers.

Structure of the draft Standard

EFRAG supports the IASB's approach and highlights the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of subsidiaries without public accountability. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries without public accountability need to comply so that it is simple for them to apply.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix 1.

An overview of the use of options provided in the IAS Regulation (1606/2002) in the EU as of December 2018 is included in Appendix 2.

If you would like to discuss our comments further, please do not hesitate to contact Filipe Camilo Alves, Galina Borisova or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1 - EFRAG's responses to the questions raised in the ED

Question 1 - Objective

Notes to constituents – Summary of proposals in the ED

1 *As explained in paragraph BC2 of the Basis for Conclusions, the IASB launched the project* Disclosure Initiative—Subsidiaries that are SMEs *(now renamed to* Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures*) in response to feedback from stakeholders to the Request for Views—2015 Agenda Consultation.*

2 *These stakeholders, mainly preparers, requested that the IASB permits subsidiaries to apply IFRS Standards with reduced disclosure requirements. More specifically, allow the use of the recognition and measurement requirements in IFRS Standards, but with reduced disclosure requirements. Stakeholders considered that such an approach would eliminate unnecessary costs for many subsidiaries in preparing general purpose financial statements, while maintaining information needed by the users of those financial statements.*

3 *As detailed in paragraph BC8 of the Basis for Conclusions, the IASB decided that the objective of its project is to develop proposals to permit subsidiaries without public accountability to apply the recognition and measurements requirements in IFRS Standards, with reduced disclosure requirements developed from the disclosure requirements in the IFRS for SMEs Standard.*

4 *This is reflected in paragraph 1 of the ED, where the IASB proposes that the objective is to permit eligible subsidiaries to apply the reduced disclosure requirements in the ED and the recognition, measurement and presentation requirements in IFRS Standards.*

Question 1

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?

EFRAG's response

EFRAG agrees with the proposed objective of specifying reduced disclosure requirements for the financial statements of subsidiaries that are in the scope of the project.

EFRAG considers that the IASB's proposals would have the benefit of allowing entities that are in the scope of the project to apply IFRS Standards (i.e., use the recognition and measurement requirements in IFRS Standards) with reduced disclosure requirements.

Introduction

5 EFRAG welcomes the IASB's efforts in developing reduced disclosure requirements for subsidiaries within the scope of the project. This project responds to a demand from respondents to the IASB 2015 Agenda Consultation to undertake a project

which would allow subsidiaries to use the recognition and measurement requirements of IFRS Standards with less onerous disclosure requirements.

6 The IASB's proposal would have the benefit of encouraging subsidiaries within the scope of the project to apply IFRS Standards, which would significantly increase the quality of their financial statements and ease their use.

Proposed objective

7 EFRAG agrees with the proposed objective of specifying disclosure requirements for the financial statements of subsidiaries within the scope of the project.

8 EFRAG notes that the IASB's proposals respond to a direct request that was made in the *Request for Views—2015 Agenda Consultation*. They are likely to reduce costs for subsidiaries that prepare general purpose financial statements under IFRS, while maintaining information needed by the users of those financial statements.

9 EFRAG highlights that many European countries currently permit or require the use of IFRS in the annual accounts and/or consolidated financial statements of non-publicly traded (please see appendix 2 – *Overview of the use of options provided in the IAS Regulation*). Therefore, the population of European subsidiaries that may benefit from this project is potentially significant.

10 In addition, there are jurisdictions that currently use the *IFRS for SMEs* Standard, including their disclosures, as a point of reference for local accounting requirements (e.g., Sweden). In such jurisdictions, the transition to IFRS Standards for entities that would adopt this (draft) Standard would be easier.

Structure of the ED and the objective of the project

11 EFRAG highlights the importance of having a stand-alone, well-structured and simplified set of disclosure requirements that are easy to apply by subsidiaries without public accountability. That is, the importance of having a structure (of the draft Standard) that supports the IASB's proposed objective of permitting eligible subsidiaries to apply **all** the disclosure requirements in the ED (that are well identified) and the recognition, measurement and presentation requirements in IFRS Standards.

Question to Constituents

12 This (draft) Standard would allow subsidiaries without public accountability to make a transition to IFRSs adopting a reduced set of disclosure. On the one hand, it has been observed that such entities would however have to continue to produce a detailed set of disclosure to prepare their reporting package for the parent company that produces full IFRSs. But on the other hand, the level of materiality at group level will be different from the materiality at subsidiary level. Do you expect any incremental benefits for the European companies in your jurisdiction? Please detail.

Question 2 - Scope

Notes to constituents – Summary of proposals in the ED

13 *The IASB considered which type of entities without public accountability (including joint ventures and associates) should be in the scope of the proposed new standard. The arguments discussed are listed in paragraph BC13-BC16 of the Basis for Conclusions.*

14 *In paragraph 6 of the ED, the IASB states that an entity would be permitted to apply the proposed disclosure requirements in its consolidated, separate or individual*

financial statements if, at the end of its reporting period, it is a subsidiary that does not have public accountability and has a parent (ultimate or intermediate) that produces consolidated financial statements available for public use that comply with IFRS Standards.

Public accountability

15 *In paragraph 7 of the ED, the IASB clarifies that an entity has public accountability if its debt or equity instruments are traded in a public market (or are in the process of issuing such instruments for trading in a public market) or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.*

16 It is worth noting that 'Public Interest Entities' is a European concept defined by European legislation (article 2 of the 2013 Accounting Directive) that is different from the IASB's definition, which is narrower.

Subsidiaries of a parent that produces consolidated financial statements available for public use that comply with IFRS Standards

17 In accordance with paragraph 7 of the ED, the proposed disclosure requirements would only be available to subsidiaries of a parent (ultimate or intermediate) that produces consolidated financial statements available for public use that comply with IFRS Standards. In paragraph BC21 of the Basis for Conclusions, the IASB explains that 'restricting the eligibility is consistent with the stakeholder feedback when the Board added the project to its research pipeline'.

At the end of the reporting period

18 *In paragraph 6 of the ED, the IASB states that only an entity that is a subsidiary at the end of its reporting period can apply its proposed disclosure requirements.*

19 In paragraph BC19 of the Basis for Conclusions the IASB explains that referring to the end of the reporting period is simple, clear and would avoid unintended consequences. For example, if the IASB were to permit an entity that was a subsidiary at any time during the reporting period to apply the proposed disclosure requirements, an entity that ceased to be a subsidiary near the start or end of its reporting period would remain eligible to apply the disclosure requirements for that reporting period (even if not a subsidiary for most of the reporting period).

Electing to apply the proposed disclosure requirements

20 It is also worth noting that in accordance with paragraph 9 of the ED, the proposed disclosure requirements would be optional and entities could apply or revoke them at any time.

Who would be out of the scope?

21 Most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would not be able to apply the IASB's proposals, because they typically hold assets in a fiduciary capacity.

22 In addition, a conglomerate that is a subsidiary and has subsidiaries that are listed in paragraph 21 would not be able to apply the IASB's proposals in its consolidated financial statements.

23 Finally, subsidiaries of an investment entity, when the investment entity (the parent) does not present consolidated financial statements.

Application of the IASB's proposals in Europe

24 In accordance with Regulation (EC) No 1606/2002, European publicly traded companies have to prepare consolidated accounts in conformity with IFRS Standards. In addition, member states have the option to permit or require the use of IFRS Standard for:

(a) *the annual accounts of publicly traded companies;*

(b) *consolidated financial statements of non-publicly-traded companies; and/or*

(c) *the annual account of non-publicly-traded companies.*

25 *Currently, many European countries use some or all of the options provided by the Regulation (EC) No 1606/2002 (please see Appendix 2). However, some member states do not use any of the options and require the use of national laws, regulations and administrative provisions, in compliance with Directive 2013/34/EU (the 2013 Accounting Directive), for the annual financial statements and consolidated financial statements of non-publicly-traded companies.*

26 *If the European Union decides to endorse this reduced-disclosure IFRS Standard for subsidiaries in the future, EFRAG expects that such IFRS Standard would automatically apply to the companies located in a member state that has opted to allow or require the use of IFRS in the annual financial statements and consolidated financial statements of non-publicly-traded companies (in accordance with Regulation (EC) No 1606/2002).*

27 *However, only the companies in the scope of the project (as described above) could apply the reduced-disclosure IFRS Standard. Therefore, EFRAG expects that only the following companies could use the reduced-disclosure IFRS Standard:*

(a) *the consolidated financial statements of non-listed companies that:*

(i) *are also subsidiaries;*

(ii) *do not have public accountability; and*

(iii) *its ultimate or intermediate parent produces financial statements available for public use that comply with IFRS Standards.*

(b) *the annual accounts of non-listed companies (including separate financial statements) that:*

(i) *are subsidiaries;*

(ii) *do not have public accountability; and*

(iii) *its ultimate or intermediate parent produces financial statements available for public use that comply with IFRS Standards.*

28 *EFRAG highlights that expanding the scope to all entities without public accountability may raise calls from European Stakeholders in some EU member states to increase the use of IFRS and adopt the reduced disclosure IFRS Standard, particularly those jurisdictions that require the use of local GAAP for annual accounts and consolidated financial statements of non-publicly traded entities.*

29 *Finally, it is worth noting that currently IFRS for SMEs Standard is not used in Europe and there is no endorsement process related to it. Therefore, in Europe the IASB proposals would not be seen as competing with the IFRS for SMEs Standard.*

Question 2

Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the IASB'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?

EFRAG's response

At this stage, EFRAG cautiously agrees with the IASB's proposed scope. However, EFRAG recognises that there is also support for the alternative view expressed by Ms Françoise Flores in the Basis for Conclusion of the ED. Therefore, EFRAG has decided to ask constituents for their views on the scope of the ED.

EFRAG highlights that the IASB's proposals in this project are likely to put pressure on the definition of 'available for public use'.

Finally, EFRAG is concerned about the IASB's proposals that the entity must be a subsidiary without public accountability at the end of the reporting period in order to be included in the scope of the project.

Scope of the project

30 At this stage, EFRAG cautiously agrees with the IASB's proposed scope, which is focused on subsidiaries without public accountability when their parent company (ultimate or intermediate) produces consolidated financial statements available for public use that comply with IFRS Standards. More specifically, EFRAG:

(a) agrees with the IASB's argument in paragraph BC16(a) of the Basis for Conclusions that the proposed scope is consistent with the feedback from stakeholders about the need for reduced disclosure requirements for subsidiaries whose parent prepares consolidated financial statements applying IFRS Standards. Thus, if these subsidiaries apply IFRS (rather than Local GAAP), it would improve financial reporting consistency within a group;

(b) agrees with the IASB's argument in paragraph BC16(f) of the Basis for Conclusions that the IASB should first test its new approach with subsidiaries without public accountability and subsequently, after the implementation and application of the proposed disclosure requirements, consider whether the scope can be widened (e.g., following the post implementation review);

(c) agrees with the IASB's argument in paragraph BC16 of the Basis for Conclusions, which states that if the IASB's proposals can be applied by any SME, it may be seen as a competing Standard with the *IFRS for SMEs* Standard when considering the IFRS Foundation publications (as mentioned above in paragraph 30, in Europe the IASB proposals would not be seen as competing with the *IFRS for SMEs* Standard); and

(d) considers that if the IASB would widen the scope, it would have to consider the possible effects of such an IFRS Standard and EFRAG would have to reassess the IASB's proposals in the ED in the light of the new scope and existing EU accounting legislation for non-publicly traded entities (e.g., Directive 2013/34/EU). For example, the disclosures related to maturity analysis in IFRS 7 *Financial Instruments: Disclosures* could become relevant to assess the liquidity risk and should be included if the scope was widened to include entities that do not belong to a group.

31 Finally, as further explained in question 6, some consider that European insurers could also benefit from this project.

Support for Ms Françoise Flores alternative view

32 However, EFRAG recognises that there is also support for the alternative view expressed by Ms Françoise Flores in the Basis for Conclusion of the ED (paragraphs AV1-AV8).

33 In paragraph AV1 of the Basis for Conclusions, Ms Flores explains that she agrees with designing disclosure requirements that are specific to entities without public accountability and that apply IFRS recognition and measurement requirements. However, she opposes restricting such requirements to subsidiaries without public accountability. In her view, all entities without public accountability should be eligible to apply the IASB's proposals, because it is by design relevant to all of them.

34 Those that support widening the scope to all entities without public accountability (i.e. supportive of Ms Françoise Flores alternative view):

(a) agree with the argument provided in paragraph AV2 of the Basis for Conclusions that widening the scope could open IFRS Standards to entities that currently apply neither IFRS Standards nor the *IFRS for SMEs* Standard;

(b) consider that limiting the scope to subsidiaries without public accountability would also limit the potential benefits of the reduced disclosure IFRS Standards, as subsidiaries already have to provide extensive information to the parent when preparing their reporting package. By contrast, other entities without public accountability would benefit in full the benefits of a reduced disclosure IFRS Standard;

(c) although subsidiaries without public accountability have raised the issue, many other stakeholders not usually involved in IFRS discussions may also consider beneficial to have reduced disclosure requirements within IFRS Standards;

(d) agree with the argument provided in paragraph AV3 of the Basis for Conclusions that no entity and its financial statements' users should bear the cost of unnecessary disclosures, and no jurisdiction should be prohibited from opening the use of the draft Standard to all entities without public accountability that the jurisdiction regulates; and

(e) agree with the argument provided in paragraph AV7 of the Basis for Conclusions that any entity without public accountability currently applying IFRS Standards should be helped to eliminate from its financial statements disclosures that are not deemed material.

35 EFRAG acknowledges these arguments and the potential benefits of widening the scope to other entities without public accountability. For example, the benefits of:

(a) widening the scope to other entities such as associates, joint ventures and joint operations that submit financial information prepared applying IFRS Standards to its joint venturer, joint operator or investor, which will need the information for the application of the equity method of accounting or recognition of an interest in a joint operation; and

(b) including the annual accounts and consolidated financial statements of non-publicly traded entities that are not a subsidiary in the scope of the project as it will be easier for investors to understand and compare financial statements.

36 Therefore, EFRAG is seeking constituents' input on the scope of the ED.

Question to Constituents

37 Considering the advantages and disadvantages identified above and the EU accounting legislation, do you prefer a different scope? If so, please specify your preference.

Subsidiaries of a parent that produces consolidated financial statements available for public use

38 In the ED, the IASB uses the concept 'available for public use' (as in IFRS 10 *Consolidated Financial Statements*) when defining the scope of the ED.

39 Some European jurisdictions allow the use of IFRS in the annual and consolidated financial statements of non-publicly traded companies. These financial statements are often 'available for public use' as they have to be officially filed (e.g. commercial register) and published in an official journal or website. However, in cases where consolidated financial statements of the parent are not available for public use, its subsidiaries would not be able to apply the reduced disclosure requirements.

40 Therefore, the IASB's proposals in this project are likely to put pressure on the definition of 'available for public use'.

At the end of the reporting period

41 EFRAG is concerned that according to the IASB's proposals an entity must be a subsidiary without public accountability at the end of the reporting period to be in the scope of the project.

42 EFRAG notes that if an entity ceases to be a subsidiary near the end of its reporting period, it will not be eligible to apply the IASB's proposals for that reporting period. Therefore, as mentioned in paragraph AV8 of the Basis for Conclusions, eligibility restrictions could force an entity to change disclosure regime when its economic conditions and users' needs remain unchanged, because of a change in control or a change in its parent's accounting policy. In such cases, the entity would be forced at short notice to provide a full set of disclosures, which would be costly for preparers and its users.

43 EFRAG suggests that the IASB considers alternatives for entities that cease to be a subsidiary near the end of its reporting period (e.g., within the last three months).

Electing to apply the IASBs proposals

44 EFRAG welcomes that the proposed disclosure requirements would be optional and entities could apply or revoke them at any time, electing to prepare a full set of IFRS disclosures.

45 In particular, EFRAG welcomes the IASB's clarification in paragraph 11 of the ED that in the first financial statements in which a subsidiary ceases to apply the reduced-disclosure IFRS Standard and applies IFRS Standards with full disclosures, a subsidiary without public accountability should be required to provide comparatives for the disclosures reported in the current period's financial statements (i.e. comparatives with full disclosures from IFRS Standards, even if not included in the previous years' financial statements).

46 Finally, EFRAG considers that it is not entirely clear whether a subsidiary without public accountability that prepares consolidated financial statements (i.e., it is also a parent) and separate financial statements can elect to use the reduced-disclosure IFRS Standard in both of its statements if one or more (but not all) of its subsidiaries have public accountability. For example, if such subsidiary can elect to use of the draft Standard in its separate financial statements (where subsidiaries are presented as investments) but not in its consolidated financial statements (where subsidiaries are consolidated).

Question to Constituents

47 Do you foresee any incompatibilities between the IASB's proposals included in the ED (e.g., use of the term 'public accountability') and EU accounting legislation, such as Regulation (EC) No 1606/2002 or the Directive 2013/34/EU (e.g., use of the term 'Public Interest Entities')?

Question 3 - Developing the proposed disclosure requirements

Notes to constituents – Summary of proposals in the ED

48 In accordance with paragraph BC23-39 of the Basis of Conclusions, when developing the proposed disclosure requirements, the IASB started with the existing disclosure requirements in the IFRS for SMEs Standard (last updated by the 2015 Amendments to the IFRS for SMEs*). Subsequently:*

(a) *when the recognition and measurement requirements in IFRS Standards and the IFRS for SMEs Standard are the same, the IASB made minor tailoring changes (e.g., changing terminology or/and updating cross-references);*

(b) *when the recognition and measurement requirements in IFRS Standards and the IFRS for SMEs Standard differ, the IASB applied the principles in BC34 of the Basis for Conclusions to the disclosure requirements in IFRS Standards (i.e., the principles in paragraph BC157 of the Basis for Conclusions of IFRS for SMEs Standard which were used, when the ASB originally developed the disclosure requirements for SMEs). More specifically, the IASB:*

(i) *added disclosure requirements for topics or accounting policy options omitted from the IFRS for SMEs Standard;*

(ii) *deleted disclosure requirements relating to accounting policies available in the IFRS for SMEs Standard but not in IFRS Standards.*

49 It is worth noting that when there are no recognition and measurement differences between the two Standards, the IASB will only make minor tailoring, even if a new disclosure requirement was added to an IFRS Standard since the IFRS for SMEs Standard was developed (in 2009) and updated (in 2015). Consequently, when there are no recognition and measurement differences, the tailoring will not consider the most recent requirements from IFRS Standards.

50 As further explained in question 4, the IASB introduced a number of exceptions to its approach to developing the proposed disclosure requirements.

51 Finally, the IASB decided that it would consider proposing amendments to the draft Standard when it publishes an exposure draft of a new or amended IFRS Standard to facilitate consideration of the appropriate amendments to the draft Standard when the related amendments to IFRS Standards are being discussed.

Question 3

Paragraphs BC23–BC39 of the Basis for Conclusions explain the IASB'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?

EFRAG's response

EFRAG welcomes the IASB's proposal to consider the principles in paragraph BC157 of *IFRS for SMEs* when there is a need to tailor the disclosure requirements. However, EFRAG considers that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations.

EFRAG also highlights the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between *IFRS for SMEs* and IFRS Standards but there are differences in timing between the two.

Using IFRS for SMEs as the starting point

52 EFRAG acknowledges the arguments provided in paragraph BC4 of the Basis for Conclusions that using *IFRS for SMEs* as the starting point for developing the disclosure requirements in the reduced-disclosure IFRS Standard, gives the IASB assurance that the disclosure requirements of the *IFRS for SMEs* are sufficient to meet the needs of users of subsidiaries without public accountability (users' needs) in the absence of recognition and measurement differences. Such an approach also has the benefit of minimising the work that stakeholders and the IASB need to do.

Principles for tailoring the disclosure requirements in the IFRS for SMEs

53 EFRAG welcomes the IASB's proposal to consider the principles in paragraph BC157 of *IFRS for SMEs* when there is a need to tailor the disclosure requirements.

54 However, EFRAG considers that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations, including reduction of costs for preparers, which is one of the main objectives of the project. The IASB already refers to this in paragraph BC29 of the Basis for Conclusions about "*users' needs and cost–benefits*". This should be better reflected in the principles used by the IASB's when the recognition and measurement requirements differ between the *IFRS for SMEs* Standard and IFRS Standards.

55 EFRAG also highlights the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between *IFRS for SMEs* and IFRS Standards but there are differences in timing of update between the two. More specifically, the risk of increasing the number of exceptions and inconsistencies as only some, but not all, of those recent improvements to disclosure requirements in IFRS Standards are included in the ED. In addition, when a new amendment to an IFRS Standard is issued in the future, it is possible that some, but not all, improvements related to that IFRS Standard have been incorporated in the reduced-disclosure IFRS Standard.

56 In terms of cut-off date, the IASB should proceed with caution in regard to including the exposure drafts published by the IASB as of 1 January 2021 (e.g. IASB's Exposure Draft ED/2020/4 *Lease Liability in a Sale and Leaseback*) in its consultation document. In particular, there is the risk of double consultation on the same topic, not reflecting the IASB's latest tentative decisions on a project and reflecting tentative decisions that might be reversed in the future.

57 Finally, EFRAG welcomes that the IASB will consider proposing amendments to the draft Standard whenever it publishes an exposure draft of a new or amended IFRS Standard. This approach avoids unintended consequences, such as a measurement and/or recognition mismatch (from an early application of a new IFRS Standard) and would not delay the benefit of any improvements to other IFRS Standards.

Question 4 - Exceptions to the approach

Notes to constituents – Summary of proposals in the ED

58 After reviewing the results of its approach (as described above under question 3), the IASB made exceptions to the approach in a limited number of cases. In paragraphs BC40 to BC52 of the Basis for Conclusions, the IASB explains the exceptions to its approach to developing the disclosure requirements. Those exceptions are summarised in the table below:

Topic	*IASB's principles*	*What is the exception?*
Disclosure objectives	*When recognition and measurement requirements are different, tailoring would be required.*	*'Disclosure objectives' are not included even if paragraph BC157 of the IFRS for SMEs would require their inclusion.*
Investment entities	*Omitted topic in IFRS for SMEs, resulting in recognition and measurement differences.* *Tailoring would be required and adding paragraphs 19D(b) and 19E–19G of IFRS 12 Disclosure of Interests in Other Entities (recent improvements to IFRS Standards) would be supported by paragraph BC157.*	*Disclosures required by paragraphs 19D(b) and 19E–19G of IFRS 12 (on unconsolidated subsidiaries and unconsolidated structure entities) not included to avoid inconsistencies in the ED as similar disclosures were not included for non-investment entities (on interests in consolidated and unconsolidated structured entities).*
Changes in liabilities from financing activities	*Recognition and measurement requirements are the same. Thus, tailoring would not be required, even if improvements have been made to IFRS Standards.*	*A simplified version of the requirements on changes in liabilities from financing activities (paragraphs 44A–44E of IAS 7 Statement of Cash Flows) was included as such disclosures would be useful to users of financial statements.*
Exploration for and evaluation of mineral resources	*Omitted topic in IFRS for SMEs but the difference in disclosure requirements is not due to a recognition or measurement difference. Thus, tailoring would not be required.*	*Addition of paragraph 25 of IFRS 6 Exploration for and Evaluation of Mineral Resources in the proposed disclosure requirements as such disclosures would be useful to users of financial statements.*
Defined benefit obligations	*Recognition and measurement requirements are the same. Thus, tailoring would not be required.*	*Require more disaggregation when making a reconciliation of the opening and closing balances of a defined benefit obligation (i.e. alignment with IAS 19 Employee Benefits) as this disaggregation would be useful to users of financial statements.*
Improvements to disclosure requirements in IFRS Standards	*Recognition and measurement requirements the same. Thus, tailoring would not be required, even if improvements have been made to IFRS Standards.*	*Some recent improvements to disclosure requirements in IFRS Standards have been included so that users can benefit from improved disclosure requirements.*

Additional disclosure requirements in the IFRS for SMEs Standard	*Disclosure requirements of the IFRS for SMEs Standard that are additional to those of IFRS Standards for which there is no recognition and measurement difference. Thus, tailoring would not be required.*	*Remove or tailor the disclosures to align with the change in IFRS Standards*

Question 4

Paragraphs BC40–BC52 of the Basis for Conclusions explain the IASB'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?

EFRAG's response

EFRAG is concerned that in some cases the IASB's reasoning for making the exceptions is not entirely clear, making them complex to understand. In addition, EFRAG is also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seems to be incomplete.

Finally, the IASB should consider the interaction between its Exposure Draft on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the Exposure Draft *Disclosure Requirements in IFRS Standards - A Pilot Approach* (where the emphasis is put on defining the disclosure objectives and not on the list of disclosures).

IASB's proposed exceptions

59 In general, EFRAG acknowledges the challenges of this project and that specific exceptions may be needed to improve relevance or reduce costs for preparers.

60 EFRAG also welcomes that the IASB has included in the Basis for Conclusions a section explaining those exceptions.

61 However, EFRAG is concerned that in some cases the IASB's reasoning for making the exceptions is not entirely clear, making them complex to understand. In particular, EFRAG considers that it is not always entirely clear:

(a) to which principle the exception relates to. For example, when considering the exclusion of disclosure objectives, it is not entirely clear whether this is an exception to the principle of tailoring the *IFRS for SMEs* when there is a recognition or measurement difference or an exception to the principle described in BC157 of the Basis for Conclusions of *IFRS for SMEs*, or other;

(b) whether and when omitted topics generate recognition and measurement differences. For example, when discussing exploration for and evaluation of mineral resources, the IASB states that this is an omitted topic in IFRS for SMEs but seems to assume that the difference in disclosure requirements is not due to a recognition or measurement difference. This is because the IASB refers to the addition of some paragraphs from IFRS 6 as an exception to the principle of not tailoring the *IFRS for SMEs* when there is no recognition or measurement difference; and

(c) why in some cases recent improvements to the disclosure requirements in IFRS Standards have been considered, while others not, which raises the risk of having inconsistencies.

62 In addition, EFRAG is also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seems to be incomplete. For example, the IASB's reduced-disclosure proposals:

(a) included IAS 8 with no tailoring, which is an exception to the principle of not tailoring the *IFRS for SMEs* when there are no measurement and recognition differences; and

(b) refers to disclosure requirements in IFRS 17 instead of adapting them, which is an exception to the principle of tailoring the *IFRS for SMEs* when there are measurement and recognition differences (if an omitted topic constitutes a measurement and recognition difference).

63 In general, EFRAG suggests that the IASB better explains the exceptions included in its proposals and checks the completeness of the exceptions to be explained.

Reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities

64 At this stage, EFRAG has not identified any practical issues related to the question included in the ED on requiring a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Nonetheless, EFRAG is asking for input to its constituents.

Question to Constituents

65 Would the information required by paragraph 130 of the ED (reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities) differ from the information reported by the parent (as required by paragraphs 44A–44E of IAS 7)? If so, in what respect?

66	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?

Other exceptions: Improvements to disclosure requirements in IFRS Standards

67 Please see paragraph 55 above on the principles for developing disclosures.

Other exceptions: Disclosure objectives

68 EFRAG agrees that the 'disclosure objectives' included in IFRS Standards are less likely to pass the cost-benefit test for subsidiaries without public accountability than for companies(parent) traded in a public market.

69 Nonetheless, the IASB should consider the interaction between its Exposure Draft on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the Exposure Draft *Disclosure Requirements in IFRS Standards A Pilot Approach* (project where the emphasis is put on defining the disclosure objectives and not on the list of disclosures).

Question 5 - Disclosure requirements about transition to other IFRS Standards

Notes to constituents – Summary of proposals in the ED

70 In accordance with paragraph BC58 of the Basis of Conclusions any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the reduced-disclosure Standard.

71 This would mean that:

(a) *the IASB does not include in the ED any disclosure requirements on transition related to other IFRS Standards; and*

(b) *a subsidiary would have to apply the disclosure requirements in other IFRS Standards (would mainly impact in future new or amended IFRS Standards).*

72 The IASB decided to proceed with such an approach because disclosures on transition are very specific and only relevant on initial application of a new or amended IFRS Standard.

Question 5

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 IASB's reasons for this proposal.

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

EFRAG's response

EFRAG welcomes that disclosure requirements for transition provisions of new and amended IFRS Standards would have to be applied by subsidiaries without public accountability that elect to apply the reduced-disclosure IFRS Standard.

EFRAG also welcomes paragraph 5 of the ED which clearly states that any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard would remain applicable, even if these disclosures are not inside the reduced-disclosure IFRS Standard itself.

73 EFRAG welcomes that disclosure requirements for transition provisions of new and amended IFRS Standards would have to be applied by subsidiaries without public accountability that elect to apply the reduced-disclosure IFRS Standard.

74 EFRAG also welcomes paragraph 5 of the ED which clearly states that any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard would remain applicable, even if these disclosures are not inside the reduced-disclosure IFRS Standard itself (but still required if not listed in appendix A).

75 EFRAG considers that such an approach provides a relief from unnecessary overlaps between the reduced-disclosure IFRS Standard and other IFRS Standards on provisions related to transition. Particularly, when considering that transition requirements would not be simplified for entities within the scope of the project (i.e. the transition requirements would be the same).

Question 6 - Disclosure requirements about insurance contracts

Notes to constituents – Summary of proposals in the ED

76 The IASB considered whether to propose reduced disclosure requirements in relation to IFRS 17 in the draft Standard.

77 As explained in paragraph BC62 of the Basis for Conclusions, most banks, credit unions, insurance companies, securities, brokers/dealers, mutual funds and investment banks would be out of the scope, therefore would have to provide full disclosures from IFRS Standards.

78 Nonetheless, some entities that issue insurance contracts within the scope of IFRS 17 could be eligible to apply the IASB proposals on reduced disclosures for subsidiaries. For example:

(a) *a subsidiary that insures only the risks of its parent or its fellow subsidiaries; or*

(b) *a non-insurance subsidiary that issues insurance contracts within the scope of IFRS 17.*

79 *As explained in BC64 of the Basis for Conclusions the IASB decided not to propose reduced disclosure requirements for IFRS 17. Therefore, the entities described in the paragraph above would have to provide full disclosures from IFRS 17.*

Question 6

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 IASB'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.

EFRAG's response

EFRAG acknowledges the IASB's arguments included in paragraph BC64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for insurance contracts. However, EFRAG considers that they are not compelling and that the application a full set of disclosure requirements for IFRS 17 might result in undue costs and efforts and bring no or little benefit to the users of financial statements.

Therefore, EFRAG is asking a question to constituents to better understand what entities in the scope of the ED issue insurance contracts and what type of disclosures would be relevant for them.

80 EFRAG acknowledges the IASB's arguments included in paragraph BC64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for insurance contracts. However, EFRAG considers that they are not compelling as they can be applied to disclosure requirements of any recently published Standard which is not yet effective.

81 EFRAG notes that *IFRS for SMEs* Standard does not contain any provisions for accounting for insurance contracts and considers the disclosure requirements of IFRS 17 very demanding from quantitative and qualitative point of view as they were developed for the large publicly accountable insurance companies. EFRAG is of view that for the entity without public accountability, no matter how rare these entities are, complying with a full set of disclosure requirements on IFRS 17 would result in undue costs and efforts and will bring no or little benefit to the users of their financial statements.

82 Nevertheless, EFRAG considers that further research is needed to better understand what entities in the scope of the ED issue insurance contracts and what type of disclosures would be relevant for them. The IASB should also further discuss whether insurance companies in general could benefit from the proposals in the ED.

83 Therefore, EFRAG highlights the importance of consulting the stakeholders before reaching a conclusion. In particular, to identify the size of the population to which

this standard might apply, the nature of their insurance activities and what simplifications to disclosure requirements could be relevant.

Question to Constituents

84 In your jurisdiction, are there entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the IASB's proposals? If so, please provide details on which entities would be in the scope, the nature of insurance activities they undertake and how common they are. What simplifications to disclosure requirements of IFRS 17 would you propose for those entities?

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

Notes to constituents – Summary of proposals in the ED

85 For entities that prepare their 'first IFRS financial statements', IFRS 1 sets out the procedures that an entity must follow when it adopts IFRS Standards. It contains mandatory exceptions and optional exemptions from full retrospective application of IFRS Standards and requires disclosures that explain an entity's transition to IFRS Standards.

86 The IASB discussed whether and how a subsidiary that prepares its 'first IFRS financial statements' (i.e., it previously applied either local GAAP or IFRS for SMEs) and elects to apply the draft Standard would apply IFRS 1. As explained in BC85 of the Basis for Conclusions, the IASB decided that:

(a) *A subsidiary may elect to apply the proposed reduced disclosures in its 'first IFRS financial statements';*

(b) *Such the subsidiary would not be required to apply the full disclosure requirements in IFRS 1. Instead, it would apply the IASB's proposed reduced disclosures for IFRS 1 that are included in the ED; and*

(c) *Electing or revoking an election to apply the draft Standard does not result in an entity meeting the definition of a first-time adopter of IFRS Standards in IFRS 1.*

Question 7

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 IASB'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?

EFRAG's response

EFRAG agrees with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary should apply the disclosure requirements proposed in the ED. EFRAG also welcomes the IASB's clarification in paragraph 13 of the ED on the interaction with IFRS 1.

Nonetheless, it may be useful to clarify in the main body of the ED that the use the of reduced-disclosure IFRS is not considered being a change in an accounting policy in accordance with IAS 8.

Interaction with IFRS 1

87 EFRAG agrees with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary should apply the disclosure requirements proposed in the ED, which would be based on Section 35 of *IFRS for SMEs* but adapted in accordance with the IASB's adaptation principles. EFRAG believes the disclosure requirements of the reduced-disclosure IFRS Standard in relation to the subsidiary's transition to and the recognition and measurement requirements included in the reduced-disclosure IFRS Standard to be sufficient.

88 EFRAG also welcomes the IASB's clarification in paragraph 13 of the ED that electing or revoking an election to apply the draft Standard does not result in an entity meeting the definition of a first-time adopter of IFRS Standards in IFRS 1.

89 Nonetheless, it may be useful to clarify in the main body of the ED (as the IASB has done for IFRS 1) that the use the of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8 as it is related to the use of an optional IFRS Standard (like IAS 34 *Interim Financial Reporting*). If considered an accounting policy choice, an entity shall change an accounting policy only if the change is required by an IFRS or results in the financial statements providing reliable and more relevant information. Therefore, the application of the Standard would likely be impossible for companies that were applying full IFRS before.

Question 8 - The proposed disclosure requirements

Notes to constituents – Summary of proposals in the ED

90 In paragraphs 22-213 of the ED, the IASB proposes reduced disclosure requirements for each related IFRS Standard (developed in accordance with the principles explained in BC28 of the Basis for Conclusions). For example, the disclosure requirements for inventories are set out in the ED under the heading IAS 2 Inventories.

91 *Nonetheless, several disclosures from full(other) IFRS Standards would still apply.* For example:

(a) *the disclosure requirements in IFRS 8 Operating Segments, IFRS 17 and IAS 33 Earnings per Share would remain applicable;*

(b) *all the disclosure requirements not included in Appendix A would remain applicable. To ease the application of the draft Standard, the disclosure requirements that remain applicable are generally stated in a footnote to the subheading of the IFRS Standard to which they belong; and*

(c) *the disclosure requirements about transition to other IFRS Standards.*

92 Therefore, a subsidiary without public accountability that elects to apply the draft Standard, would have to provide the disclosures required in the Draft Standard and a number of disclosures from other IFRS Standards that remain applicable.

Question 8

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?

EFRAG's response

EFRAG highlights that the assessment of users' needs in terms of disclosures (i.e. whether the IASB's proposed disclosures are sufficient) is difficult and subjective. Therefore, EFRAG expects that during its consultation period EFRAG will receive more input on disclosures that should be added or deleted.

Nonetheless, EFRAG suggests that the IASB adds a number of disclosures identified below as they are relevant for users of financial statements and would not increase significantly the costs for preparers.

Proposed disclosure requirements for each related IFRS Standard

93 EFRAG highlights that the assessment of users' needs in terms of disclosures (i.e., whether the IASB's proposed disclosures are sufficient) is difficult and subjective. Therefore, EFRAG expects that during its consultation period EFRAG will receive more input on disclosures that should be added or deleted.

IFRS 1 First-time Adoption of International Financial Reporting Standards

94 EFRAG notes that the disclosure requirements in paragraph 25(a) of the ED do not exist in IFRS 1. Although such disclosures may be useful, the IASB's approach seems to result in having subsidiaries being required to provide more disclosures than in full IFRS.

95 In accordance with IFRS 1, one of the key principles is that an entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.

96 Within the section 'Reconciliations', the ED refers to reconciliations linked to the statement of financial position and financial performance, but it is silent on the statement of cash flows.

97 For users of financial statements that are very focused on cash flows it may be an issue that the ED does not give emphasis that 'if an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows' (as mentioned in paragraph 25 of IFRS 1).

IFRS 2: Share-based Payment

98 In 2016 the IASB issued *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2), which introduced clarifications and additional disclosures on share-based payment transactions with a net settlement feature for withholding tax obligations.

99 For example, paragraph 52 of IFRS 2 states that 'if an entity has classified any share-based payment transactions as equity-settled, the entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation when it is necessary to inform users about the future cash flow effects associated with the share-based payment arrangement'.

100 The ED does not reflect such improvements because when recognition and measurement requirements are the same, the IASB's approach does not result in tailoring the *IFRS for SMEs* Standard for recent improvements made to IFRS Standards.

101 EFRAG questions whether such disclosures would be assessed as non-essential when considering the principles in paragraph BC157 of the *IFRS for SMEs* as these disclosures provide useful information on future cash flow effects associated with the share-based payment arrangement.

IFRS 3: Business Combinations

Primary reasons for the business combination

102 Users of financial statements usually find useful the information about the primary reasons for the business combination as in paragraph B64(d) of IFRS 3. Such information would not be costly and relevant for users of financial statements.

Business combinations not finalised at the end of the reporting period

103 If a business combination is not finalised at the end of the reporting period, users of financial statements usually find information about amounts recognised in the financial statements for the business combination that have been determined provisionally (as in paragraph B67(a) of IFRS 3). EFRAG questions whether such disclosures would be assessed as non-essential when considering the principles in paragraph BC157 of the Basis for Conclusions to the *IFRS for SMEs* Standard as there is a measurement uncertainty (i.e., provisional amounts are used for the items for which the accounting is incomplete).

Business combination achieved in stages

104 Finally, in a business combination achieved in stages, users often look for the information about the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination as in paragraph B64(p) of IFRS 3.

IFRS 6: Exploration for and Evaluation of Mineral Resources

105 Exploration and evaluation assets are quite significant in value and if a company is in this field of activities, it would most probably be the only activity it is engaged in.

106 This raises the question of whether full disclosures on IFRS 6 should be required, including the disclosures in paragraphs 23 and 24 of IFRS 6 (rather than simply require paragraph 25 of IFRS 6), which focus on disclosing:

(a) information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources;

(b) accounting policies for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets; and

(c) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

IFRS 12: Disclosure of Interests in Other Entities

Composition of a group

107 When a subsidiary is also a parent (e.g., a subsidiary in a conglomerate structured by type of business), users of financial statements tend to find useful disclosures that help them understand the composition of a group, as required in paragraph 10(a)(i) of IFRS 12, even if in a summarised way.

Consolidated and unconsolidated structured entities

108 Users of financial statements may find useful disclosures on consolidated and unconsolidated structured entities, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support) as in paragraph 14 of IFRS 12. In paragraph BC45 of the Basis for Conclusion, the IASB seems to conclude that analogous disclosures for investment entities would be useful and supported by paragraph BC157 (the exception was needed only for consistency purposes with non-investing entities).

109 In addition, when comparing the requirements of the ED with *IFRS for SMEs*, the IASB has not included the requirement in *IFRS for SMEs* for a parent entity to disclose the carrying amount of investments in subsidiaries that are not consolidated at the reporting date, in total, either in the statement of financial position or in the notes as in paragraph 9.23A of *IFRS for SMEs*. Such information could be relevant for users of financial statements.

Combined financial statements

110 Finally, EFRAG highlights that not including the disclosure requirements on combined financial statements from *IFRS for SMEs*, this project raises the wider issue of lack of disclosure requirements for combined financial statements in IFRS Standards. Although this type of financial statements is mentioned in the Conceptual Framework for Financial Reporting ("*if a reporting entity comprises two or more entities that are not all linked by a parent-subsidiary relationship, the reporting entity's financial statements are referred to as 'combined financial statements*.") there is currently no guidance in IFRS Standards.

IFRS 14: Regulatory Deferral Accounts

111 EFRAG highlights that the Rate Regulated Activities (RRA) project is already at the stage of Exposure Draft (issued in January 2021) and that the disclosure requirements in the ED are much more detailed than in IFRS 14 and would most probably need to be simplified to reflect the needs of entities within the scope of the project.

112 EFRAG recommends that the developments of the RRA project are closely monitored by the IASB staff. Should a final IFRS Standard on RRA be issued before the reduced-disclosure IFRS Standard, the provisions of this new RRA IFRS Standard, and not IFRS 14, should be analysed and included in the reduced-disclosure IFRS Standard. Particularly when considering that IFRS 14 has not been endorsed in the EU since it was deemed as a temporary standard offering an accounting option to companies that adopt IFRS for the first time and very few European companies would fall within its scope. Thus, if IFRS 14 is included EFRAG would have to consider the possibility of a carve-out.

IFRS 15: Revenue from Contracts with Customers

113 EFRAG suggests that the IASB includes a cross-reference to paragraph 124(a) of the ED (to ease its application) as disclosures on significant judgements, and changes in the judgements, made in applying IFRS 15 to the contracts that significantly affect the determination of the amount and timing of revenue from contracts with customers should be included (as in paragraph 123 of IFRS 15) are relevant for users to better understand any measurement uncertainty.

IFRS 16: Leases

Leases with variable payment

114 EFRAG considers that the disclosures (by lessees) on leases with variable payment (paragraph 100(e) of the ED) could be expanded by including the reference *'…variable lease payments (e.g., expenses relating to variable lease payments not included in the measurement of lease liabilities, …'* or by including a separate line (as required for lessors in paragraph 106(e) of the ED) as it is relevant for users to assess future cash flows (similar to paragraph 53(e) of IFRS 16).

Sale and leaseback transactions

115 EFRAG considers that the disclosures required in paragraph 109 of the ED on sale and leaseback transactions: lessees and lessors could be expanded to mention information on "*and gains or losses arising from sale and leaseback transactions."*

Requirements in other IFRS Standards that remain applicable

IAS 12: Income Taxes

Relationship between tax expense (income) and accounting profit

116 EFRAG considers that the disclosures required by paragraph 147(c) of the ED could be presented in the form of a numerical reconciliation as required by paragraph 81(c) of IAS 12 when explaining the relationship between tax expense (income) and accounting profit (usually this reconciliation is highly valued by users) and take into account the guidance in paragraph 85 of IAS 12 on the most meaningful rate for users of financial statements.

Discontinued operations

117 EFRAG highlights that the disclosures on discontinued operations, as in paragraph 81(h) of IAS 12, are usually very relevant for users of financial statements. More specifically, disclosures on the tax expense relating to the gain or loss on discontinuance and the profit or loss from the ordinary activities of the discontinued operation for the period.

Temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements

118 EFRAG notes that when an entity has significant investments, the disclosures on the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, as in paragraph 81(f), are highly valued by users of financial statements.

Evidence of deferred tax asset

119 Finally, EFRAG suggests that the IASB also requires disclosures on evidence of deferred tax asset (DTA), as required in paragraph 82 of IAS 12. For users it is vital to have evidence that supports the recognition of DTA's, as this is a very subjective area.

IAS 19: Employee Benefits

120 To ensure consistency and comparability, EFRAG suggests that the IASB specifies in the reduced disclosure IFRS Standard how a subsidiary should quantify the principal actuarial assumptions used, as in paragraph 144 of IAS 19 (as an absolute percentage, and not just as a margin between different percentages and other variables).

IAS 36 Impairment of assets

Calculation of unit's (group of units') recoverable amount

121 EFRAG is concerned that some disclosures will not be included. In particular:

(a) the period over which management has projected cash flows based on financial budgets/forecasts approved by management;

(b) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/ forecasts; and

(c) the discount rate(s) applied to the cash flow projections.

122 This is because the period projected and the terminal growth rate have a significant impact on the calculation of unit's (group of units') recoverable amount.

123 For example, management may use over-optimistic assumptions on terminal growth rate or use long and unreliable forecasts (e.g., 20 years) to calculate the value in use.

124 The discount rate applied to the cash flow projections also provides highly relevant information to users of financial statements, in particular the risks specific to the asset for which the future cash flow estimates have not been adjusted.

125 Therefore, EFRAG considers that, with a simplified language, the following information could be required when calculating unit's (group of units') recoverable amount:

(a) the period over which management has projected cash flows;

(b) the growth rate used to extrapolate cash flow projections; and

(c) the discount rate(s) applied to the cash flow projections.

Impairments and reversal of impairments

126 EFRAG highlights the importance of having detailed information about impairments and reversal of impairments, even when using a reduced disclosure IFRS Standard. For example, it is important to provide information at segment level when IFRS 8 is applied, the events and circumstances that led to the recognition or reversal of the impairment loss, etc. This is because, Section 27 *Impairment of Assets* requires limited disclosures on impairments (i.e., mainly the amounts).

Description of the cash-generating unit

127 EFRAG considers that paragraph 193 of the ED could be expanded to include a 'description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8)' as in paragraph 130(d) of IAS 36. Such information would not be costly and relevant for users of financial statements.

IAS 37: Provisions, Contingent Liabilities and Contingent Assets

128 EFRAG considers that paragraph 196(a) of the ED could be expanded to mention the increase during the period in the discounted amount arising from the passage of time, as in paragraph 84(e) of IAS 37.

Question 9 - Structure of the draft Standard

Notes to constituents – Summary of proposals in the ED

129 In accordance with paragraph 15 of the ED when an entity elects to apply the IASB proposals on reduced-disclosure requirements, it would have to apply:

(a) *the proposed disclosure requirements included in the main body of the ED; and*

(b) *the disclosure requirements of other IFRS Standards which are not listed in appendix A of the ED. To ease application, the disclosure requirements that remain applicable (inverse of appendix A) are generally stated in a footnote to the subheading of the IFRS Standard to which they relate.*

130 *In BC70 of the Basis for Conclusions the IASB explains that typically, the disclosures not listed in Appendix A and that continue to apply include, for example disclosure requirements embedded in paragraphs that include recognition, measurement or presentation requirements (thus more difficult to integrate in the ED) or disclosure requirements that use the term 'disclosure' in a broad sense, encompassing items presented on the face of the primary financial statements. Another example would be disclosure requirements that should be easier for preparers to consider in situ because the paragraphs that follow them contain requirements about their application.*

Question 9

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?

EFRAG's response

EFRAG supports the IASB's approach and highlights the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of subsidiaries without public accountability. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries without public accountability need to comply so that it is simple for them to apply.

131 EFRAG acknowledges that when an entity elects to apply the IASB proposals on reduced-disclosure requirements, it would have to:

(a) apply the proposed disclosure requirements included in the main body of the ED; and

(b) apply the disclosure requirements of other IFRS Standards which are set out in a footnote next to the subheading of the IFRS Standard to which they relate and which are not listed in appendix A.

132 Such an approach means that subsidiaries without public accountability have to apply not only the proposed disclosure requirements in the main body of the ED but also all the disclosure requirements of other IFRS Standards which are set out in a footnote next to the subheading of the IFRS Standard to which they relate.

133 EFRAG supports such an approach and highlights the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of subsidiaries without public accountability. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries without public accountability need to comply to that it is simple for them to apply.

134 Finally, EFRAG highlights that in paragraph BC10 of the Basis for Conclusions, the IASB notes that establishing reduced disclosure requirements for subsidiaries that are SMEs would not prevent such subsidiaries from choosing to provide additional information. However, Appendix A may be seen as a list the disclosure requirements in other IFRS Standards that cannot be applied when an entity applies the IASB proposed reduced-disclosure requirements.

EFRAG
European Financial Reporting Advisory Group

Appendix 2 - Overview of the use of options provided in the IAS Regulation (1606/2002) in the EU as at December 2018 - available at the European Commission website (click here)

<table>
<tr><th rowspan="5">Type of company</th><th colspan="8">Listed undertakings</th><th colspan="14">Other undertakings</th></tr>
<tr><th colspan="8">Annual financial statements</th><th colspan="6">Consolidated financial statements</th><th colspan="8">Annual financial statements</th></tr>
<tr><th colspan="4">IFRS permitted</th><th colspan="4">IFRS required</th><th colspan="2">IFRS permitted</th><th colspan="4">IFRS required</th><th colspan="4">IFRS permitted</th><th colspan="4">IFRS required</th></tr>
<tr><th colspan="3">Financial</th><th rowspan="2">Non-financial</th><th colspan="3">Financial</th><th rowspan="2">Non-financial</th><th rowspan="2">Financial</th><th rowspan="2">Non-financial</th><th colspan="3">Financial</th><th rowspan="2">Non-financial</th><th colspan="3">Financial</th><th rowspan="2">Non-financial</th><th colspan="3">Financial</th><th rowspan="2">Non-financial</th></tr>
<tr><th>Bank</th><th>Insurance</th><th>Other</th><th>Bank</th><th>Insurance</th><th>Other</th><th>Bank</th><th>Insurance</th><th>Other</th><th>Bank</th><th>Insurance</th><th>Other</th><th>Bank</th><th>Insurance</th><th>Other</th></tr>
<tr><td>Austria</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Belgium</td><td></td><td></td><td></td><td></td><td></td><td></td><td>Yes</td><td></td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Yes</td><td></td></tr>
<tr><td>Bulgaria</td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Cyprus</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td></tr>
<tr><td>Czech Republic</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">(1)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Germany</td><td colspan="4">(2)</td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">(2)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Denmark</td><td></td><td></td><td></td><td>(1)</td><td></td><td></td><td></td><td>(6)</td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Yes</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Estonia</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td></tr>
<tr><td>Greece</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>(5)</td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>(5)</td></tr>
<tr><td>Spain</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td colspan="4">(3)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Finland</td><td>Yes</td><td></td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">(4)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>France</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Croatia</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>(5)</td><td></td><td></td><td></td><td>(1)</td><td>Yes</td><td>Yes</td><td>Yes</td><td>(5)</td></tr>
<tr><td>Hungary</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>(1)</td><td>Yes</td><td></td><td>Yes</td><td></td></tr>
<tr><td>Ireland</td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Italy</td><td></td><td></td><td></td><td></td><td>Yes</td><td>(6)</td><td>Yes</td><td>Yes</td><td colspan="2">Yes</td><td></td><td>Yes</td><td></td><td>(9)</td><td>Yes</td><td></td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td>(9)</td></tr>
<tr><td>Lithuania</td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td></tr>
<tr><td>Luxembourg</td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Latvia</td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>(7)</td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td></tr>
<tr><td>Malta</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>(8)</td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td>(8)</td></tr>
<tr><td>Netherlands</td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Poland</td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td><td colspan="2">(10) or (11)</td><td>Yes</td><td></td><td></td><td></td><td colspan="4">(10) or (11)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Portugal</td><td></td><td></td><td></td><td>(1)</td><td>Yes</td><td colspan="3">(6)</td><td></td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td></td><td></td><td></td><td>(1)</td><td>Yes</td><td></td><td></td><td></td></tr>
<tr><td>Romania</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td colspan="2">Yes</td><td>Yes</td><td></td><td>Yes</td><td></td><td></td><td></td><td></td><td></td><td>Yes</td><td></td><td>Yes</td><td>(5)</td></tr>
<tr><td>Sweden</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td colspan="4">(12)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Slovenia</td><td></td><td></td><td colspan="2">(6)</td><td>Yes</td><td>Yes</td><td></td><td>(1)</td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td></td><td></td><td></td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td><td></td><td></td></tr>
<tr><td>Slovakia</td><td colspan="4">Yes</td><td>Yes</td><td>(5)</td><td>Yes</td><td>(5)</td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td>Yes</td><td></td><td>Yes</td><td>(5)</td><td>Yes</td><td>(5)</td></tr>
<tr><td>United Kingdom</td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td><td colspan="2">Yes</td><td></td><td></td><td></td><td></td><td colspan="4">Yes</td><td></td><td></td><td></td><td></td></tr>
</table>

Footnotes

(1) If the consolidated financial statements are prepared in accordance with IFRS Standards
(2) Only in addition to financial statements prepared in accordance with National GAAPs
(3) Groups in which there is a listed undertaking
(4) If mandatory audit
(5) Public Interest entities
(6) If no IFRS consolidated financial statements are published
(7) Issuers listed on the Baltic Main List
(8) Large and regulated entities
(9) Entities listed on a non regulated market
(10) Subsidiaries of a group in which parent or higher level parent prepares consolidated financial statements under IFRS
(11) Entities having filed or intending to file for admission to public trading
(12) IFRS mandated by the Financial Supervisory Authority