

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

Subsidiaries that SMEs Cover Note

Objective

- 1 The objective of the session is to provide EFRAG TEG an update on the IASB's latest discussions on its project *Disclosure Initiative — Subsidiaries that are SMEs*.
- 2 The next step of this project will be the publication of an exposure draft, which is expected in the second half of 2021. This project is part of EFRAG workplan and, when a future IFRS Standard will be issued, it will be subject to endorsement.
- 3 To support the discussion, agenda paper 11-04 – Use of IFRS in Europe – has been provided for the session. From this table, it is clear that the majority of the European countries permit or require the use of IFRS in the annual accounts, accordingly the potential population of European entities affected by this project may be significant.

Introduction

- 4 In the 2015 Agenda Consultation, a number of respondents called for the IASB to permit subsidiaries to apply IFRS Standards but with reduced disclosure requirements. These respondents noted that the use of the IFRS for SMEs Standard is not attractive for subsidiaries that report to their parent for consolidation purposes and apply the recognition and measurement requirements of IFRS Standards.
- 5 In addition, it was argued that these subsidiaries preferred to use the recognition and measurement requirements of IFRS Standards but with less onerous disclosure requirements. Such an approach would reduce costs, without removing information needed by the users of the subsidiaries' financial statements.
- 6 In March 2016, the IASB added a research project to its pipeline but it only became active in March 2019. Since then, the key topics discussed by the IASB were:

<p>Research phase (EFRAG TEG- CFSS March 2019 and EFRAG TEG May 2020)</p>	<ul style="list-style-type: none"> • Would a reduced-disclosure IFRS Standard be adopted by jurisdictions and applied by subsidiaries that are SMEs (IASB September 2019 meeting)? • Can the IASB utilise the disclosure requirements of the <i>IFRS for SMEs</i> Standard with only minimal tailoring (IASB October 2019 meeting)? • How can the project benefit subsidiaries (IASB November 2019 meeting)? • Moving the project to the standard-setting programme (IASB January 2020 meeting)
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Subsidiaries that are SMEs – Cover Note

<p>Scope of the project (EFRAG TEG March 2021)</p>	<ul style="list-style-type: none"> Should the scope remain subsidiaries that are SMEs, be extended to all SMEs, somewhere between the two or be narrower (IASB November 2019, December 2020, January 2021 meeting)?
<p>Presentation (EFRAG TEG May 2020)</p>	<ul style="list-style-type: none"> Should the reduced-disclosure IFRS Standard require the subsidiaries to apply the presentation requirements of IFRS Standards or the presentation requirements of the IFRS for SMEs Standard (April 2020 meeting)?
<p>Disclosures – main principles (EFRAG TEG March 2021)</p>	<ul style="list-style-type: none"> How to adapt the disclosure requirements of the <i>IFRS for SMEs</i> Standard (October 2019 meeting)? Should there be exceptions to the process for adapting disclosure requirements (e.g. (November 2020 meeting)? When should the IASB consider disclosure requirements for new and amended IFRS Standards (November 2020 meeting)?
<p>Disclosures – specific issues</p>	<ul style="list-style-type: none"> Should the compliance statement required by paragraph 16 of IAS 1 <i>Presentation of Financial Statements</i> differentiate the entities that have applied the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? Should the disclosure requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> be applied by subsidiaries applying the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? Should the disclosure requirements for transition provisions of new and amended IFRS Standards be applied by subsidiaries applying the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? Should the disclosure requirements on combined financial statements from paragraph 9.30 of the <i>IFRS for SMEs</i> Standard be included in the reduced-disclosure IFRS Standard (IASB October 2020 meeting)? Should a subsidiary applying the reduced-disclosure IFRS Standard be required to apply the disclosure requirements of IAS 33 <i>Earnings per Share</i> (omitted topic in IFRS for SMEs) (IASB November 2020 meeting)? Should the reduced-disclosure IFRS Standard include disclosure requirements for interim financial reports (omitted topic in IFRS for SMEs) (IASB November 2020 meeting)? Should the reduced-disclosure IFRS Standard include disclosure requirements for regulatory deferral account balances (omitted topic in IFRS for SMEs) (IASB November 2020 meeting)? Should the reduced-disclosure IFRS Standard include disclosure requirements for subsidiaries applying IFRS 17 <i>Insurance Contracts</i> (omitted topic in IFRS for SMEs) (IASB December 2020 meeting)?

	<ul style="list-style-type: none"> Which disclosure requirements should be proposed in the reduced-disclosure IFRS Standard for cash-generating units containing goodwill and intangible assets with indefinite useful lives (IASB January 2021 meeting)?
Transition to the reduced-disclosure IFRS Standard.	<ul style="list-style-type: none"> Is there a need to amend IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> or include transition provisions in the reduced disclosure IFRS Standard (IASB December 2020 meeting)? Could the reduced disclosure IFRS Standard be applied for the ‘first time’ more than once (IASB December 2020 meeting)? Is first-time application of the reduced-disclosure IFRS Standard an accounting policy choice (IASB December 2020 meeting)?
Consultation document (EFRAG TEG March 2021)	<ul style="list-style-type: none"> Should the consultation document be an exposure draft or a discussion paper?

Next Steps

- 7 The topics shaded in green have already been considered by EFRAG TEG (EFRAG TEG-CFSS meeting in March 2019 and EFRAG TEG May 2020)
- 8 In this meeting, the EFRAG TEG members discuss the scope of the project, the main principles being considered in developing the new reduced-disclosure IFRS Standard and the IASB tentative decision on whether the consultation document should be an exposure draft or a discussion paper (shaded in orange).
- 9 In future meetings, the EFRAG Secretariat will update EFRAG TEG members on more specific topics, which have been identified in the table above (without any colour).

Agenda Papers

- 10 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 11-02 – Update to EFRAG TEG;
 - (b) Agenda paper 11-03 – Summary of the IASB tentative decisions – for background only; and
 - (c) Agenda paper 11-04 – IAS Regulation – use of options overview – for background only.